

Managing Distribution Channel Conflict in the Hotel Industry

Juliet Tan*, Larry Dwyer**

ABSTRACT

Online travel service companies allow the consumer to compare shop for hotel rooms. This makes it increasingly difficult for hoteliers to create a balance between revenue goals and channel management. In an effort to capture new markets and new customers, companies may choose to open new sales channels. This can lead to channel conflict- selling the same product in a market through multiple sales channels with different pricing. The paper addresses the problems for hotels that arise due to the lessening of control over pricing of rooms within a brand and the potential transfer of pricing authority to third party online travel service companies, identifying the different types of channel conflict and their causes. Some of the adverse effects of channel conflict are discussed prior to exploring some strategies that hotel companies can employ to manage and potentially overcome this problem.

Keyword: Channel Distribution Management, Channel Conflict, Internet, Hotels, Accommodation

INTRODUCTION

In the hotel and tourism sector, the Internet is changing the way the conventional elements of marketing strategies are strategically determined and operationally introduced. The 4Ps (product, price, promotion and place)—the classical elements of the marketing mix — are being adjusted to the features of the Internet, as the most important communication infrastructure of modern times. In this respect, the greatest change has occurred in the distribution and promotion of tourism products and services (Pilepic, Šimunic and Car, 2013). Online sales in the hotel sector globally have become increasingly important over the past decade and offer extended opportunities for channel sales, promotional methods, branding and relationship marketing to consumers. Today's hyper-interactive travel consumers access marketing messages across a variety of channels. We are now experiencing a progressive convergence of new and traditional digital formats, of both interactive and offline marketing channels (Estis Green and Lomanno, 2012).

Prior to the information technological revolution of today, traditional forms of hotel accommodation selling had a quite set structure. Typically, hotels sold their rooms via their own sales force, the distributor channel, the sales representative channel, the catalogue/mail order channel, the online channel, the call centre channel and several other channels (Friedman and Furey, 1999). The difference is these channels have now changed in importance due to technological advancements and social changes in consumer behaviour.

Hotel customers, just like other consumers world-wide, increasingly seek quick, easy, and cheap means of finding, purchasing, and receiving products and services using the Internet. The share of reservations associated with the Internet is increasing. By late 2010, Internet bookings for the top 30 hotel brands reached 56.9% of the total brand Computer Reservation Systems (CRS) bookings (eTRAK Report, 2011). This constitutes a major share increase compared to the 37.6% level in 2006. In recent years, a new breed of hyper-interactive travel consumers who are today's main hotel customers has emerged. Paralleling

* School of Marketing, Australian School of Business, University of New South Wales, NSW, Australia.
Email: juliet.tan@unsw.edu.au

** School of Marketing, Australian School of Business, University of New South Wales, NSW, Australia.
Email: l.dwyer@unsw.edu.au

changes in demography are changes in people's values and needs, aspirations and expectations. Social trends are affecting the values of consumers in diverse ways. In the developed countries that provide the bulk of international tourists, several emerging values can be said to characterize populations. Consumers are categorized as: money rich-time poor; individualistic, experience seeking, desirous of self-improvement, demanding value for money, experimental but impatient, socially and environmentally aware, and safety conscious (Dwyer *et al.*, 2009). The advent of social media and the mobile web has accelerated the hyper-interactiveness of Internet users and travel consumers in general. Engaging customers via social marketing has become not only the norm for hotels, but is expected by past, current and future hotel guests.

Third-party online travel service (OTS) companies, such as Expedia, Orbitz, and Travelocity, Agoda, Zuji, Bookings.com and so on, have become extremely popular largely due to their ability to facilitate low-cost search over a range of tourism products. When making the initial reservation, the consumer will often choose to visit the various distribution channels, including the hotel's own web site, seeking the lowest rate for hotels within their chosen segment and location. By making it easier and less "time costly" to compare room rates between different hotels, these e-wholesalers have empowered the consumer with the information to comparison shop for rooms given a stated quality and rate preference. This has made it increasingly difficult for hoteliers to create a balance between revenue goals and channel management (Carvell and Quan, 2006).

There is a trade-off between occupancy rates and maintaining higher yield rates. This trade-off is difficult to manage because the ultimate goal especially for premium hotels is to keep the RevPar (Revenue Per Available Room) as high as the market will pay, so as to sustain high investment levels to maintain brand image. A concern of hoteliers wanting to optimize sales revenue is that they will have reduced occupancy if they do not use e-wholesalers. It's an interesting dichotomy as hotels are dependent on these e-wholesalers and yet these are the very channels eroding their overall revenue and pricing policies. Since price-conscious consumers tend to gravitate to third-party sites that have lower room rates, any booking via a more discounted channel leads to unintended channel share loss since it represents one less booking for the same hotel via the hotel website. With over half of bookings done online,

major hotel brands need to innovate digitally to sustain leadership. E-wholesalers were estimated to cost hotels US \$2.5 billion in 2010, capturing \$40-120 commission per booking, vs. the \$2-6 costs to hotels when booking is done at their own sites (HawkPartners LLC, 2012). When multiple channels are employed and distribution intensity increases, three profit threats may confront a retailer: sales cannibalization, margin dilution, and customer diversion (Buhalis, 2000).

Hotel operators sell their products through a broad array of distribution channels. Since most sell through several channels simultaneously, channels sometimes find themselves competing to reach the same set of customers. In an effort to capture new markets and new customers, companies often choose to open new sales channels. This can lead to channel conflict- selling the same product in a market through multiple sales channels with different pricing. Channel conflict also relates to a situation in which one channel member perceives other channel members to be engaged in behaviour that prevents or impedes it from achieving its goals (Webb, 2002, Coughlan *et al.*, 2006). This can cause stress to the relationship, effectively turning them into both competitors and partners simultaneously. Often there is chaos, loss of focus and negative emotions, when many channels all compete for the same business. Emotion and relationship turbulence can be a powerfully destructive situation that ultimately erodes revenue for all parties involved (Sharma and Mehrotra, 2007). Where one channel targets customer segments already served by an existing channel, this can lead to such a deterioration of channel economics that the threatened channel either retaliates against the operator or simply stops selling its product. In either case the operator suffers.

The purpose of this paper is to discuss the causes of channel conflict and its effects on hotel marketing strategies. The context is the global hotel industry. The following section presents an overview of the nature of channel conflict. The discussion then addresses the problems that arise due to the lessening of control over pricing of rooms within a brand and the potential transfer of pricing authority to third party OTS companies. The paper then discusses the different types of channel conflict and their causes. Some of the adverse effects of channel conflict are then discussed prior to exploring some strategies that hotel companies can employ to manage and potentially overcome channel conflict.

CHANNEL CONFLICT

Using Internet channels, hotels can sell their products directly to their customers or through intermediaries. The role and goal of intermediaries is to co-operate with the tourism supplier/hotelier to sell the product or service and expand market share for both parties. The main points are that:

- By relying on their own direct sales the hotels would be limiting their marketing exposure but would yield more due to less commissions paid.
- Therefore to optimize brand and product exposure as well as increase bottom line profits, hotels, in varying degrees, generally sell their accommodation rooms via their own websites (direct sales) and also use third party agents to promote them.

A distribution channel is a combination of intermediaries that co-operate in the sale of a product. Each distribution channel operates parallel to and in competition with other channels. A hotel normally uses multiple marketing channels such as travel agencies, online travel service companies (OTS), professional conference organizer channel as well as its own sales force, hotel reception and reservations call centres and several more. These multiple channels provide optimum exposure to ensure that occupancy is high however sometimes conflict can arise between the hotel's distribution channels and the hotel.

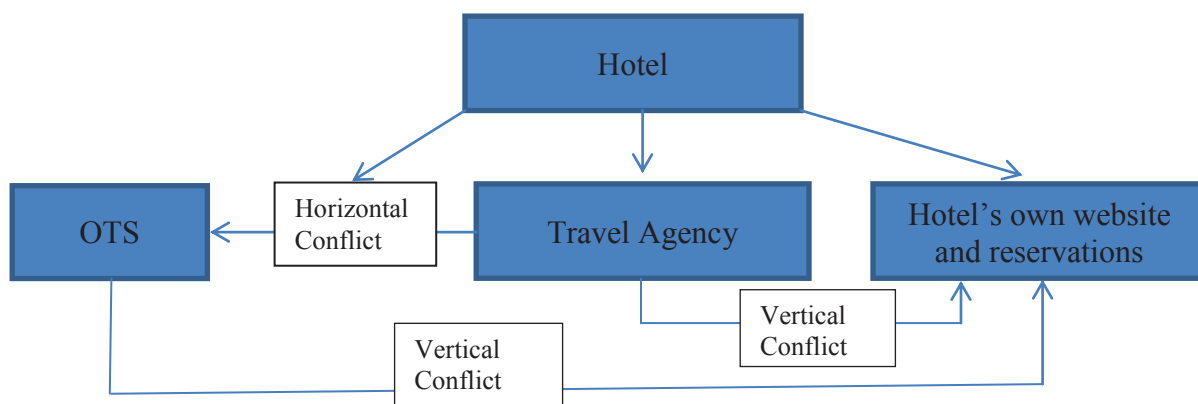
Channel conflict occurs when there is another type of distribution channel that is perceived by the existing channels to be chasing after the same customers with

the same brand (Coughlin *et al.*, 2006). Although these channels act as additional marketing arms for the hotels, and most of the time when pricing is consistent across the board with some hotel groups, there is potential for conflict amongst the multiple channel partners when different pricing are advertised. Inevitably, this creates a situation in which channel partners have to compete against one another and/or the hotel's internal sales team. As the numbers of Internet sites proliferate, including the hotel's own Internet site that offers the same product for sale, this channel management issue becomes more complex and channel conflict may occur.

Should market share erosion and declining product prices become evident, channel conflict can become destructive. If channels are responding to excessive competition by de-emphasizing the brand or by giving away too much in order to keep an account, the resulting conflict impacts hotel customers, channel partners and hotel companies themselves. This is where conflicting goals can result in channel conflicts.

This type of channel conflict is called "Vertical channel conflict" (Coughlin *et al.*, 2006). Vertical channel conflict occurs between members of the distribution system that perform different roles, for instance conflict between a hotelier and a retail travel agent, or a travel wholesaler and retail travel agent. Vertical channel conflict can arise, for example, when hotels try to sell through their own website while still maintaining working relationships with online travel wholesalers, resulting in competition for sales. In essence, the price discounting and additional consumer benefits provided for these rooms are accomplished through what is known as the merchant model (Carvell and Quan,

Figure 1: Hotel Distribution Channels and Potential Conflicts



Source: Authors' construction

2006) whereby e-wholesalers are assigned blocks of rooms at far below standard current market rates who then resell the rooms over the Internet at significant mark-ups.

Another type of channel conflict is called Horizontal channel conflict. This is channel conflict amongst channel partners that perform similar roles in the industry (Ganseler, Dekimpe and Brend, 2007). To provide an example, it is when a retail travel agent conflicts with another retail travel agent or a hotel undercuts another hotel in price for instance. Thus when Expedia offers cheaper prices online to beat their competitors such as Wotif and Harvey World Travel, or when say the Intercontinental Hotel in a certain area provides an aggressive promotion verses the nearby Holiday Inn which is part of the IHG Hotel Group, horizontal channel conflict occurs.

Fig.1 shows some relationships that a hotel might have with Internet and other distribution channels. The focus is on potential conflict between the hotel's own website and two third party distribution channels- online travel service providers and travel agents.

The figure depicts a hotel that has its own online website and, through this website, sells directly to the customers wanting to book accommodation. Through the website, customers can book rooms with affiliated hotels anywhere in the world. The hotel may also contract local travel agents as well as online wholesalers who sell the accommodation rooms on its behalf. The hotel would ideally maximize its profits by selling directly to the consumer avoiding third party commissions and hence provide travellers with price or value add incentives to book directly through their website. At the same time it would also encourage its third party agents to sell rooms in times of excess capacity.

To take an example, the OTS company may independently mark up the room prices prior to offering the hotel rates to potential customers. If, say one or two weeks out, occupancy is predicted to be lower than expected by the hotel's revenue management system, the hotel may attempt to increase occupancy by listing the rooms more cheaply through its reservations departments and through sales directly online. In this circumstance the OTS company's customer may complain to them that they have seen cheaper hotel rates on the hotel's websites than on the OTS company's website and decide to buy directly from the hotel itself. This can subsequently cause vertical conflict between the OTS company and the hotel.

Another scenario is where a local travel agency is provided a block of rooms for say Chinese New Year, which in late January or early February is a busy time for the Chinese travel agents but it is not necessarily a seasonally busy time for a city hotel. If, however, direct sales by the hotel unexpectedly become brisk for this period, this may leave less rooms available for sales by the lower yield Chinese travel agents. This can also cause vertical conflict between the Chinese travel agency and the hotel.

Horizontal conflict may also occur between the traditional travel agency and the OTS. The traditional travel agency has always had a simpler and more transparent markup system than the OTS. This is because the OTS, due to having lower overheads are often able to undercut the traditional travel agency in their pricing. Penetration pricing to gain market share is exercised often by new OTS agents in the quest to increase market share.

Channel conflict pervades today's hotel operations. There is no simple solution. For example a hotel wanting total control on their sales process may not employ distribution channels at all. This will certainly result in no channel conflicts but would also limit their market exposure. The other side of the problem is having too many distribution channels selling one's products, having to pay them a margin thus eroding one's own profits. This allows great market exposure but an erosion of profitability and control of one's sales process will ensue, not to mention the channel conflicts that naturally occur with less control and more channels to manage.

As profit is the main motivating factor of both the hoteliers and distribution channels, most of the channel conflict issues originate from the incompatibility of goals surrounding pricing strategies. The hotel sector is associated with a great diversity of pricing strategies (Enz, Canina and Lomanno, 2009; Enz and Canina, 2010). Pricing is the single issue over which most channel conflict is generated and the price erosion on the Internet is a concern (Webb, 2002, pg. 98). The intermediary sees that their role as constantly being minimized with the customer due to the tourism suppliers' rates being publicized on the Internet as being lower than what the intermediary is offering especially when it comes closer to arrival dates and as inventories need to be sold off urgently. This continuous price undercutting can erode brand equity and profit margins. Meanwhile, customers develop low expectations and become disengaged (Bertiniand Wathieu, 2010).

Of course, there is an important role for yield management. Hotels are limited by the number of rooms they can sell, hence the hotel revenue manager must make targeted decisions on a daily basis as to whether to accept certain proportions of business at their accompanying rates.

When making the initial reservation, the consumer will often choose to visit the various distribution channels, including the hotel's own website, seeking the lowest rate for hotels within their chosen segment and location. Because rates often change prior to their reservation arrival date, consumers face uncertainty in rates over time even for the same hotel in a given market. Customers will often delay a purchase to ensure they are getting the 'best deal'. Alternatively, as a result of these combined forces, consumers will often continue to search for a lower priced hotel room. If a suitable substitute is found the customer will cancel the initial reservation and re-book at the lower rate. Customers regret a purchase that has already been made once they learn of the 'better deal'.

Destructive channel conflict can impact on the market position of a hotel in several ways with indirect effects on consumer satisfaction. The channels that are competing start to focus on the easiest ways to win the sale in a conflict situation (such as dropping price) and begin to overlook more important customer buying requirements. Sales force productivity may decline as the sales force both internally and in the distribution channels become de-motivated, and less engaged, thereby eroding sales volumes. Destructive channel conflicts can result in less communication between channel members; reduced loyalties among stakeholders and ultimately the distribution channels will start asking for special pricing and offer the conflicting brands with less priority, tending to sell on price rather than quality. This can also lead to frustration with channel partners, eroding the hotel's revenue position in the marketplace as well as its brand image. Further, channel conflicts often impact adversely on customer relationships and the delivery of service. These consequences will lead to a negative impact on customer satisfaction.

Channel conflict is not necessarily dysfunctional; it can be constructive when it leads to more dynamic adaptation to a changing environment and keeping the channel members focussed and responsive. Most channel conflict is considered healthy competition and part and parcel of the operational process, but it is vital to determine at

which point channel conflict becomes destructive in the sales process and interferes with channel management strategy, market position and profitability, and how it ultimately impacts customer satisfaction (Rosenbloom, 2007; Cullotta, 2009). However, too much channel conflict is dysfunctional (Kotler, 2005). Hotels must determine when channel conflict becomes destructive and to implement solutions. The main focus and priority for any hotelier should be to sell as much inventory via the most cost-effective distribution channels that can potentially generate the most bookings, while preserving rate parity and price erosion. In the view of some researchers (e.g. Carvell and Quan, 2006), channel conflict between hoteliers and e-wholesalers poses serious problems within the industry calling for a new business model that will synergize hotel revenue goals with both traditional and e-commerce pathways.

STRATEGIES TO OVERCOME CHANNEL CONFLICT

Hotels need to develop strategies that will enable them to manage channel conflict. The goal is to determine when channel conflict becomes destructive and to implement solutions. Channel members should be able to work effectively together as long as policies and processes are in place to manage the conflicts they face and to turn them into mutually workable and beneficial results.

It is the channel manager's job to fully understand who buy and where they buy, so products can be placed in the best possible channels and priced accordingly. Pricing for multiple channels can be very complicated and even careful planning may at times not enable the hotel or tourism supplier to avoid channel conflict.

The appropriate balance is to have enough market exposure with adequate distribution channels representing one's products but to also have enough centralized control and to manage the channels tightly so as to have a healthy yet competitive situation between hoteliers and their distributors. Fig. 2 displays the main alternatives.

The top sphere informs us that while multiple coverage via many distribution channels gives a hotel maximum exposure, the hotel may experience lower overall revenue due to third party commissions. In this case, the market share of the hotel's own sales is likely to decline against the hotel's third party distribution channels.

Figure 2. Market coverage and channel conflict

Source: Author's modified diagram from Cullotta (2009:3)

The middle sphere depicts a situation of optimal market coverage whereby the hotel experiences an adequate amount of market exposure with high market share for the hotel's direct sales against those of its distribution channels, with less distribution channels so the hotel can operate with manageable conflict and not feel overtaken by its distribution.

The bottom sphere depicts a situation where too little market coverage, i.e. using too few distribution channels, will result in low market exposure. Aggregate sales from both the hotel's direct sales as well as through its distribution will experience lower market share overall.

Destructive channel conflict can be managed through economic and structural controls (Pitt *et al.*, 1999). These controls put structure around a channel strategy to limit the potential for undue destructive conflict. Economic solutions compensate channels fairly for functions performed and help direct channels away from actions that create destructive conflict. Structural controls, specifically through management and communication, lay the ground rules within which conflict is managed. With each tactic,

communication before conflict arises is critical.

In response to their desire to regain more control over their brands' pricing, hotel companies have devised mechanisms to both circumvent online travel service companies and provide disincentives to booking rooms with these distribution channels. The observed search and switch behaviour of consumers and the loss pricing control by hotel companies are both connected to consumers' incentives in the market combined with the advent of Internet OTS companies. It is important to find that balance between having no conflict with market coverage gaps and low market share and having destructive conflict with price erosion and declining market share. The intent is to deter customers from buying from the online booking intermediaries and go straight to the hotel's own website.

Three types of economic controls may be highlighted.

Hotel Partnerships

Partnership between hotels can be established to circumvent the need to use third-party online travel sites. An example is Travelweb.com, with partners Hilton Hotels, Hyatt, Marriott International, Intercontinental Hotels Group, Starwood Hotels and Resorts and Priceline.com. This site was created as an online travel company, but one that is owned by the hotel partners themselves and one where the maximum mark-up within the merchant model is limited to 15–20%. However, the ability to control price discounting in this manner is dependent upon the proportion of the total rooms controlled by the partners in any one market. The success of this model thus depends on the amount of inventory provided by the hotel groups. If customers are turned away by insufficient inventory, it discourages future logging into this website. The success of this pricing/inventory model has proven to be very limited so far for this reason (Carvell and Quan, 2006).

Limiting Frequent Travel Points

Another type of control over consumer hotel booking behaviour is limiting frequent travel points to those rooms booked over the company's own web site or over other approved vendors. A growing number of hotels for instance, no longer offer bonus points and mileage to people who booked rooms on bargain web sites. This

is designed to provide a clear disincentive to customers seeking to find lower prices on discount online travel agents by denying any customer loyalty points for that stay.

This model assumes that in the consumer decision making process points are a priority and this is not always the case. Moreover, this incentive will only work up to the point where consumers value the marginal miles earned by that stay more than the amount saved per room night by booking on the discount online travel service company. However, the value of the loyalty points lost will often be far less than the amount saved. Consumers in any case could also purchase missing loyalty points to make up the difference in their point balance, in order to buy rooms. This may still cost them less, be convenient and more beneficial than booking through hotel websites just for the sake of accumulating a few loyalty points.

Best Rate Guarantees

A different approach to controlling the flow of guests who make their reservations through Internet travel discounters is to establish lowest price or “best rate guarantees” on reservations made through the company’s online booking services. These programmes offer the assurance that the rates offered at brand websites are the lowest available, precluding the need to shop for lower rates at other online booking sites. The benefit to the hotel franchisee of participating hotels in this programme comes from the observation that the franchisee’s room revenue from the matching price and the discount is higher than if they had sold the room to third-party sellers. This is due to the higher mark-up that third-party sellers require with the so-called merchant model as compared to the resulting mark-up from selling a room at the best price guarantee with the hotel company (Carvell and Quan, 2006). A variant of this option is to allow the customer to purchase a guarantee whereby if the actual room rate charged rises above some threshold level, the customer will receive the difference thereby insuring that the maximum price charged will be the threshold price.

Although such programmes appear to give the guest the assurance that by booking at the brand’s web site they would be assured of the lowest rate, in actuality, as shown in Quan (2002), the 24 hour time limit from the day of the reservation makes this guarantee essentially worthless. The best rate guarantee only erodes the hotels’

revenue further than if they sell through the e-wholesalers whilst at the same time creating further tension with their e-wholesalers.

The best rate guarantee is only one of a family of exotic options that could be offered to consumers by hotel companies. There are several other exotic reservations that may have potential value to hotels in managing room needs for corporate customers with high and frequent demand. These include an exchange option whereby a corporate customer can switch a reservation in one hotel for one in another property of greater quality without being subject to a higher rate. Also available is a so-called ‘average-price and average strike call option’ (Carvell and Quan, 2006). Under this contract a good corporate customer receives a guarantee that the price paid for a series of rooms over a set time period will not exceed some pre-specified average daily rate. This type of contract would allow the customer to know in advance the overall average daily rate that they will pay for a given number of rooms over a set time period and therefore allow them to project accommodation expenses more accurately. These options are more applicable to corporate customers than individuals who book their rooms online.

Experience tells us that as the arrival date approaches there is often significant unsold inventory. When such unsold room inventory exists this will trigger larger amounts of rooms being released to discount online travel service companies and provide a growing population of more deeply discounted rooms being made available on the Internet. Any best rate guarantee that does not take into consideration the shopping behaviour of consumers and discounting behaviour of sellers cannot be of value to either the consumers or the underlying needs of hotel companies to control customer migration following search and switch activities.

Carvell and Quan (2006) propose an “exotic” reservation method to address the hotel industry’s immediate concern—the migration of customers to third-party OTS companies and the subsequent search and switch behaviour of consumers continuing to seek lower room rates. They show that a more valuable and realistic best rate guarantee can be developed and priced whereby the hotel can offer a rate that is guaranteed to be the best rate that a consumer will ever be able to find for that room (or a comparable room) from the date of the reservation until the date of arrival. In effect, the company would be

eliminating the consumer's incentive to search the web for cheaper room rates as the arrival date approaches. A hotel can structure a best rate guarantee over an extended period of time that would provide value to consumers. The model of hotel room price uncertainty parallels closely to those developed in the financial options-pricing literature (Quan, 2002). Using a well-established exotic reservation pricing formula, it can be shown how to price this best rate guarantee so that consumers would be willing to pay for the option. The proposed solution can eliminate the need for consumers to search for lower room rates, eliminating the price uncertainty they face when making a reservation. If this uncertainty can be resolved at the time of the initial reservation, there will be no incentive for consumers to seek lower rates from third party online distributors' channels.

Under this scheme, any hotel can effectively eliminate the incentive of the guest to search and therefore eliminate the probability that the consumer will cancel their reservation and switch to a comparable room at a different hotel or even an identical room in the same hotel. In this type of "exotic" reservation, the guest is guaranteed to pay the lowest price offered and booked at the hotel distribution channel employed throughout the period of the reservation. A key insight is that a reservation given by a hotel is valued by the customer (and costly to the hotel) since it commits the hotel to sell at a fixed price when the actual rates on a given day are uncertain to both the customer and the hotel. They propose a formula for determining the value of this guarantee and in doing so determine the price that the hotel should charge for this guarantee. By providing the guest with the assurance they will pay the lowest rate offered to transient guests on a given day, there will be no incentive for them to search elsewhere, thereby eliminating the deleterious effects of search and switch behaviour. This would allow hotel companies to reassert control over the pricing of their rooms.

The solution to resolving this issue is to offer a menu of different types of reservations and have the customers self-select and thereby provide a better match between the needs of the guest and the hotel operator. By offering a modified reservation with an option, those guests who are most sensitive to price uncertainty will choose to select the "exotic" reservation while those who are less sensitive and those who have a strong brand loyalty, will select the conventional method of booking, as a lower

price offered in the future at a competing property would not motivate them to switch their reservation to the other property.

Using this approach hotel companies should be able to eliminate the incentive for consumers to engage in search and switch behaviour, re-establish the price integrity of their product while simultaneously creating a revenue stream from the sale of the best rate guarantee options to their customers. Importantly, the model does not ignore brand loyalty—the group that values brand loyalty above any price differential is still being served by the normal reservation process (Carvell and Quan, 2006). Indeed, the proposed solution has the potential to increase retention of the brand's customer base. However, guests who have migrated to third-party websites and are engaged in search and switch behaviour would find the "exotic" reservations format attractive.

We expect that, future research will price each of these, and other exotic options, and in so doing add a set of new tools for hotel companies to manage the growing complexity of hotel pricing in an Internet-connected world.

The last but very important point the authors' would like to suggest is for the hotels to use *reward* rather than *punishment* and to provide consumers with extra benefits that may not cost much to the hotels. Many benefits can be available for the consumer especially during lower seasons where the hotels would like to attract more business to their properties in any case.

For example:

- Free champagne with dinner bookings
- Late check-outs
- Discount parking or Internet
- Higher hotel reward points

These extra benefits may have minimal or no real associated costs yet provide consumers with high perceived value without eroding the hotel's revenue.

Research has identified a variety of factors that shape pricing decisions including cost, value, customer's willingness to pay, and price elasticity of demand (Stibel, 2007; Canina and Enz, 2006). Correct pricing strategy involves more than just responding to what an intermediary is charging for rooms. Competing on value is an important part of

the overall strategy. The reservation options discussed above target only the price dimension of a room booking by e-wholesalers. Value pricing (lowering rate) to satisfy customers' demand for a better deal can be extremely risky, and is not a substitute for maintaining high quality (Hayes and Huffman, 1995). Customers choose hotel rooms for a variety of reasons, including brand loyalty, location, service, as well as price. It is in the hotel's best interest to make available alternative reservation methods for different target markets acknowledging that some travellers are motivated by price and others by other factors of the marketing mix. Many customers would be prepared to trade-off benefits such as late check-out, free Internet or parking etc., against price discounts. Adding value to the room rate may be a better option for the hotel as many benefits especially in low seasons may not carry any cost or have a minimal cost attached. One can also argue that added value should be offered in order not to squander many years of developing brand equity for a short term gain in sales (Kraus and Pinto, 2009)

Notwithstanding the pricing system that a hotel may develop and operate under, it must not underestimate the importance of understanding the pricing behaviour of direct competitors. Research indicates that this is critical to effective strategy formulation and meaningful industry analysis (Enz and Canina, 2010). Hotel operators who resist pressures to undercut competitor's prices, may be better served with higher revenues.

Irrespective of the pricing method adopted by hotels in response to channel conflict, it is most important to have a good channel management strategy controlling the amount of emotion arising from channel partners. One way of good channel management in this regard is to have effective communication with the channel partners asking for feedback on a regular basis so that incrementally conflicts are being resolved along the relationship continuum. Communication about the chosen distribution strategy between the hotel channel manager and the channel members is the key to minimising conflict (Etgar, 1979; Goldkuhl 2005; Coughlan *et al.*, 2006). Hotels should develop efficient and effective marketing programmes to ensure that all important information is properly relayed to their retailers and dealers. Within a marketing channel there must be constant two-way communication between the hotel and the channel members regarding new products, promotions, market conditions and stock levels. Improved mutual understanding between hotelier

and distribution channel will ultimately produce positive effects on customer satisfaction.

Kotler (2005) states that perhaps the most important mechanism to manage channel conflict is the adoption of superordinate goals, i.e. appeal to mutual goals relating to survival, market or customer satisfaction. Today, most channel management technologies include a reporting dashboard for managers to access information about the people and organisations they manage. Measurement is a vital key to an emerging company's performance because 'what's not measured is not managed'.

A positive outcome of good communication between hotels and e-wholesalers is the creation of competitive standards within the business to business dealings that provide for necessary standards for customer satisfaction. When both the hotel and the distribution channel are competing for the same business, for instance, they are both finding ways to provide better service and package inclusions for the client in order to attract that client to them. This can create a positive impact for the client who ultimately receives competitive products, pricing and good service.

The challenges of managing channel conflict also have relevance for education and training needs in the hospitality industry. Although space considerations preclude detailed discussion herein, it must be noted that the globalising economy and technological change inevitably require a more highly skilled labour force. Good customer relationship management is replacing traditional modes of marketing as crucial to successful business. Historically, there has been a huge imbalance between investment in technology, distribution systems, equipment and investment in human resources. But this is changing, given the recognised need to attract good professionals and innovators. It is the students' problem-solving ability that will help them as future managers to achieve competitive advantage for their organisations in industries experiencing continued rapid change, and hospitality related educational curricula must recognise this (Dwyer *et al.*, 2009). In contexts of continuous change, it is important that students be instructed in decision-making tools that can aid 'best practice' management in different areas of hotel operations. As the challenges associated with managing channel conflict make clear, the new breed of managers emerging in the tourism and hospitality industries must have the knowledge content,

but, more importantly, must have the cultural sensitivities and adaptive capabilities to apply their knowledge in contexts of change.

CONCLUSIONS

There is no doubt that hotel distribution has changed dramatically since the advent of the Internet. As hotel customers become increasingly savvy and motivated by the price benefits of booking online rather than directly with individual hotels, hotel groups face the threat of decreasing profits over time. The hotel industry is getting more competitive and complex each day. Optimizing hotel revenue management strategies has become a technical task. Choosing a clear price positioning strategy for the hotels rate policy will help strengthen hotels value perception to consumers. Undoubtedly price positioning is a challenge in an industry where one is pricing in a multi-segmented, multi-channel and highly competitive environment.

Extensive use of third-party Internet bookings under the merchant model has resulted in the erosion of the unified pricing plans that are favoured by the brand-name hotel companies. Online distribution, social media and the mobile web have all changed how hotels connect with, engage and ultimately convert customers. But the fundamental principles of hotel distribution have not changed. It is reasonable to anticipate that as the practice of shopping for rooms on the Internet becomes more widely accepted, hotel companies will continue to battle for control and market influence over their pricing structure, inventory of rooms, and their ability to foster brand loyalty. Hoteliers need to focus on distribution channels that are cost-effective, generate the most bookings, protect rate parity and price integrity and reach the targeted customer segments. The benefit of selling through a multi-channel approach far outweighs the risks. However, extensive use of third-party Internet bookings under the merchant model has resulted in the erosion of the unified pricing plans that are favoured by the brand-name hotel companies.

This paper has considered the causes of channel conflict and its effects on hotel marketing strategies. After providing an overview of the nature of channel conflict, it addressed the problems that arise due to the lessening of control over pricing of rooms within a brand and the potential transfer of pricing authority to third party online

travel service companies. The discussion indicates that channel conflict is an extremely difficult and potentially destructive marketing channel strategy and management issue. Aspects of electronic commerce conflict with, and can be viewed by other channels as a potential rival for, sales and control of the customer relationship. As conflict puts emphasis on price as a differentiation between conflicting channels, the basis for the hotel's competitive position can erode. This can lead to a fundamental shift in the way customers perceive and buy accommodation. Because this can result in a decline in market share and profits, it is critical that hotels recognize them and react quickly and appropriately. The goal of marketing management must be to optimize market coverage and manage channel conflict so that it does not become destructive.

The most viable option for the hotel industry in the future is to reduce its dependence upon e-wholesalers by developing direct online distribution channels which will give hoteliers a long-term competitive advantage in the marketplace. The direct online channel should always be at the heart of the Internet marketing and distribution strategies of any hotel company (Pilepicet *al.*, 2013). Guests booking through hotel webpages are more loyal, generate more revenue and are in the habit of travelling more often. This is the way how it is supposed to work, but with travel intermediaries investment in marketing campaigns hotels are forced to spread their rates and inventory to external websites to drive volume to their hotel. When channel conflict is managed properly, the hotel maintains a higher degree of control, the customer receives increased levels of satisfaction and the e-wholesaler channel is rewarded for its efforts. To be an industry leader, a hotel must successfully manage channel conflict.

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