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CHAPTER ONE: INTRODUCTION

1.1 Introduction

Although airline companies and travel agencies pioneered the use of Electronic Distribution Channels (EDCs) in the tourism industry, hotels did not enter the EDC arena until the late 1980s. Since that date the development and use of EDCs in hospitality marketing has exploded. However, scholars (e.g. O’Connor and Frew, 2002; Nassar, 2002; O’Connor and Piccoli, 2003; Essawy, 2004; Elsayed, 2006a; Elsayed et al., 2007) agree that hoteliers face a number of problems with EDCs, including: complexity; price transparency; the quality of hotel information shown on EDCs; building customer relationships. These problems require investigation to ascertain if they remain current and if they have the same priority for affiliated (chain and marketing consortia) and non-affiliated (independent) hotels. The differing nature of business in affiliated and non-affiliated hotels leads to discrepancies in their management of EDCs and affects non-affiliated hoteliers’ abilities to exploit EDCs (Main, 2001; Lim and Huang, 2005).

This study aims therefore to investigate the current issues facing hoteliers in relation to their exploitation of electronic distribution channels and develops an EDC performance evaluation toolkit for hoteliers. This first chapter of the thesis describes the background of the study (section 1.2), identifies the research problem (section 1.3) and the objectives required to achieve the overall research
aim (section 1.4), and concludes with an overview of the thesis (section 1.5).

1.2 Background

The origin of electronic distribution lies in airlines’ internal inventory systems that were developed in the late 1950s and 1960s. In this phase, airlines developed computer systems to manage their reservations (Emmer et al., 1993, O’Connor and Piccoli, 2003). The airline companies recognised that the installation of booking terminals in travel agencies, with instant access, real-time availability, prices and reservations, would enhance their customer service (Bowie and Buttle, 2004). The system was cost-effective and efficient, and gradually more and more bookings were sourced through travel agents (O’Connor and Frew, 2002). In the early 1970s, airline computer reservation terminals were installed in travel agencies to enable agents to book airline seats without using the telephone. Airlines expanded their reservation systems in the late 1970s to encompass hotel bookings and other travel-related services. In 1976 SABRE established the first global distribution system (GDS), followed by Amadeus, Galileo and later Worldspan. During the 1980s hotel reservation functions improved so dramatically that they shifted from merely being a distribution channel to being an efficient and effective marketing tool (Emmer et al., 1993; Bowie and Buttle, 2004).

Throughout the 1980s and the first part of the 1990s, the travel distribution role was performed by traditional travel agents and was supported by computer reservation systems (CRS), GDSs or tour operators’ videotext systems (Leisure
Travel Network) (Emmer et al, 1993 and Licata et al., 2001). Since the mid-1990s the traditional way that tourism and travel products are distributed has shifted so that increasingly consumers can access online information online and therefore bypass EDCs. The increasingly widespread use of the Internet as a means to deliver up-to-date content created the conditions for the emergence of new EDCs. These include suppliers selling direct on the Internet as well as online travel agents (e.g. Lastminute.com), allowing consumers direct access to their inventory systems and to secure online booking facilities. Most of these emerging EDCs are new entrants. However, some of the major operators in this field are owned by non-travel organisations (e.g. Expedia owned by Microsoft). The major GDSs have also gradually entered this market (e.g. Travelocity owned by Sabre and TRIP.com owned by Galileo) although they are less proactive than newer players (Licata et al, 2001; O’Connor and Frew, 2002; O’Connor and Piccoli, 2003).

Despite these advances, four main issues face hoteliers in their use of EDCs, i.e. complexity, price transparency, the quality of hotel information shown on EDCs and building customer relationships (e.g. O’Connor and Frew, 2002; Nassar, 2002; O’Connor and Piccoli, 2003; Essawy, 2004; Elsayed, 2006a; Elsayed et al., 2007). These problems are discussed in detail below.

1.2.1 Complexity

Complexity refers to the complicated nature of these channels and their management. Hoteliers have to decide which channel(s) to use, why and of
course how to use them, particularly in relation to dividing their room inventory across the various channels (O’Connor and Frew, 2002). O’Connor and Frew (2002) anticipate that EDCs will proliferate and become ever more complex with increased influence of EDCs, e.g. travelweb.com and Thisco.com, making hotel product distribution even more of a challenge. Lack of awareness in managing EDCs can result in lost reservations, which will become more important as EDCs contribute an ever-larger proportion of the hotel-sales mix. Complexity in the past has resulted in a situation where hotels have come close to losing control over product sales in online environments. Comprehensive, well-designed, and continuously-implemented strategies will curtail this problem and help operators retrieve control over inventory and price and benefit from the potential of direct sales over web sales (O’Connor and Piccoli, 2003). Many hoteliers broadcast their products using a one-to-many or scattergun communication approach (Hoffman et al., 1995) instead of being more selective (O’Connor and Piccoli, 2003).

1.2.2 Price Transparency
Price is the key to selling successfully online and a key motivator in encouraging consumers to purchase with greater than ever customer expectations that EDCs’ prices will be lower than those available through other channels (O’Connor, 2003) and evidence that customers search several online channels before making a reservation. Such price transparency places downward pressure on room rates with negative impacts on hotel profitability presenting a threat to business survival (O’Connor and Piccoli, 2003). Mega
online travel agencies, e.g. Lastminute.com or Expedia, frequently offer the cheapest prices for hotel rooms (O’Connor, 2003). Some researchers (e.g. O’Connor and Piccoli, 2003) have identified individual and collective solutions, e.g. chains prohibiting their properties or franchisees offering low rates to online branded websites instead offering customers the lowest price on their own branded websites. Hilton, Hyatt, InterContinental, Marriot, and Starwood in concert have joined technology provider Pegasus to establish TravelWeb, in a bid to control online pricing.

1.2.3 Quality of Hotel Information Shown on Different EDCs

The quality of information provided by hotels over different EDCs will determine how “good” the hotel looks externally. O’Connor and Frew (2002) and O’Connor and Piccoli (2003) advised hoteliers to enhance the quality of information displayed on EDCs by ensuring the following: rates and availability are complete, current and accurate; electronic brochures are clear and visually attractive; they understand how EDCs are used by travel agencies, intermediaries, and customers; they list all available facilities and services; they use negotiated rates; they use their two-letter GDS access code on all promotional material; they get their hotel in the system news, they consider using ‘sign-out’ and point-of-sale advertising; they have simple and easy to complete online reservation forms; there are good virtual links and easy browsing facilities to attract travellers to purchase online.
1.2.4 Building Customer Relationships

Nassar (2002) put customer relationships on the top of his hierarchy of considerations. Although the Internet offers superb opportunities for building customer relationships few hotels exploit its full potential and adopt a scattergun approach rather than a targeted many-to-many marketing approach (Hoffman et al., 1995), which would result in enhanced customer relationships. The real competition is between online travel agencies and hotel or hotel chain websites. Most online agencies offer considerable choice to customers whilst hotels do not and additionally try to enhance brand loyalty by developing customer relationship management solutions that recognize frequent and high value customers and develop a closer relationship with them (O’Connor and Piccoli, 2003). To concentrate on building consistent and effective customer relationships was Essawy’s (2004) advice for hotels to withstand this competition.

1.3 Research Problem

The extant literature acknowledges complexity, price transparency, quality of information displays and building customer relationship using EDCs as the four main issues facing hoteliers in their dealings with EDCs. These four issues need to be explored to discover if affiliated and non-affiliated share the same priorities and if there are any other issues which hoteliers face in respect of EDCs which are not acknowledged in the extant literature. This thesis will explore the way that hoteliers deal with each of these issues and will develop an
EDC performance evaluation toolkit to encapsulate best practice in relation to EDC management and help hoteliers optimise their exploitation of EDCs.

1.4 Aim and Objectives

This study aims to investigate the current issues facing hoteliers in relation to their exploitation of EDCs to develop an EDC performance evaluation toolkit for hoteliers. This aim will be achieved through the following objectives:

1- Undertake a critical review of literature on different electronic distribution channels (EDCs) applied in hotels and the issues facing hoteliers in relation to EDC exploitation and EDC evaluation.

2- Critique the hospitality distribution environment to explore the current and future distribution channels and the interaction between channels.

3- Investigate the current issues experienced by affiliated and non-affiliated hotels in Wales in their exploitation of EDCs and synthesise best practice into an EDC evaluation flowchart.

4- Discuss the EDC evaluation flowchart and the key issues experienced by the hoteliers with an expert panel comprising academics and an industry panel to produce a final EDC management model.

5- Develop the final EDC management model into an EDC performance evaluation toolkit aimed at addressing the current issues facing hoteliers in relation to their exploitation of EDCs.
1.5 Overview of Thesis

This thesis is presented in three volumes. The first volume includes eight chapters and references. Chapter one has presented an introduction consisting of: introduction; background to electronic distribution channels (EDCs); and their development in the tourism and hospitality industry. The chapter identifies four main problems facing hoteliers with EDCs. Following clarification of the research problem, the chapter identifies the aim and objectives of the thesis.

The second chapter clarifies different aspects related to the research approach. The study has adopted a qualitative approach to generate rich data. This design influenced the research design which was explained using Maxwell’s (1998) model. The epistemology and theoretical perspective adopted in the thesis are illustrated in this chapter according to Crotty’s (2007) research string: epistemology; theoretical perspective; methodology; methods. The first two comprise the theoretical approach and the last two comprise the practical approach. The practical approach adopted in this study was divided into two phases: phase one involved a comparative case study methodology (Welsh Hotel case study); phase two involved phenomenology. The methods adopted for data collection in the Welsh hotel case study were semi-structured interviews and document analysis (website analysis). In the second phase, semi-structured interviews and a self-administered survey were used to obtain information from the industry and the expert panels. Chapter two concludes with
a discussion of sampling; accessibility; piloting; data analysis; validity and reliability; and generalisability.

Chapter three presents the literature review and provides EDC definitions, an overview of the evolution of EDCs; affiliation in hotels and ICTs; the main issues facing hoteliers with EDCs; different distribution strategies; search engine optimisation strategy; hotel website success factors; electronic distribution management model and future of EDCs. This chapter asserts that the two main issues facing hoteliers – particularly when they adopt a disintermediation strategy - are the importance of understanding search engine optimisation strategies and the quality of their hotel website.

Different hotel and tourism distribution models are critically reviewed to design an initial hotel product distribution model in chapter four. This model went through different stages. The initial hotel distribution model was published at the ENTER and CHME conferences and feedback from the conferences’ audience was considered and a revised distribution model developed. This model was then discussed with Welsh hoteliers and an expert panel to design a final model for hotel product distribution.

The Welsh hotel case study forms the major parts of chapter five. In this chapter, the results of the semi-structured interviews with Welsh hotel managers and website analyses are discussed and analysed using the same sequence of the theoretical EDC management model. The chapter reviews the
major current issues facing the Welsh hoteliers in relation to EDC management. An initial EDC evaluation flowchart was designed based on synthesis of the comparative case study results and the hoteliers’ best practice.

Chapter six develops a final EDC management model based on these findings. This model comprises three stages: the EDC selection criteria; the major issues related to EDCs; an EDC performance evaluation model. In chapter seven an EDC performance evaluation toolkit is developed based on the four key areas identified in the EDC performance evaluation flowchart. Chapter eight concludes the thesis and provides a review of objectives. It discusses the thesis’ contributions to theory and practice; its limitations and future research opportunities. It concludes with some final personal reflections.

The second volume of the thesis presents the EDC performance evaluation toolkit. The third volume comprises the appendices.