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# PORTFOLIO OF ONLINE DISTRIBUTION CHANNELS ACROSS MID-MARKET HOTELS: AN EVALUATIVE REVIEW

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## ABSTRACT

*The purpose of this study is to provide an insight on current trend of research in the area of online channels for distribution of accommodation products across mid-market hotels from the hoteliers' perspective and to suggest future research avenues. The study was based upon analysis of 12 relevant research papers published in peer-reviewed international tourism-hospitality journals during the period of 2004 - 2015. The selected papers were critically reviewed to update on ongoing researches in the area and to point out significant research gaps that indicated further research scopes. It is evident, online hotel booking is steadily growing since the inception of internet and its adaptation for distributing accommodation products by the lodging industry across the globe. Some studies attempted to determine the performance of online distribution channels (ODCs), as the choice of channels is critical for mid-market hotels in order to secure reservations and revenue. These hotels need to constitute a portfolio of ODCs to sustain and counter competition. The study sought to outline the existing strategies for managing distribution through online channels and subsequently to identify the areas of due attention. It may, therefore, provide new ideas to hospitality marketing managers and recommendations to academia for future research.*

**KEYWORDS**

*Distribution Channel; Online Distribution; Online Travel Agent (OTA);  
Portfolio of Online Distribution Channels (PODC).*

**ECONLIT KEYS**

*M31; Z31; Z33.*

## **1. INTRODUCTION**

The recent socio-economic and technological developments have changed the way hotels distribute their products. Until the emergence of internet, hotels used to depend upon Central Reservation System (CRS), Global Distribution System (GDS) and traditional intermediaries (e.g. tour operator and travel agent) for distributing accommodation inventory. With the onset of internet, online booking started rising in 1990s (Carroll & Siguaw, 2005), as the hotels gradually started distributing rooms over internet channels, too. In due course of time and advancement of internet technology, hotels realized the potent benefits of ODCs and began distributing larger inventory through online mode. ODCs are cost effective (Kracht & Wang, 2010), while they provide global exposure to the participating hotels, irrespective of their size and location.

ODC services are provided by specialized intermediaries, known as Online Travel Agents/Aggregators (OTAs). They tie-up with many hotels, situated at the same or distant location, and put their accommodation products on sale (besides many other retail travel-tourism products) on their websites, for the online customers to choose from a wide variety of options. As the consumer behavior is gradually shifting from conventional to online mode; the importance of OTAs, therefore, to the hotel industry is incremental and this fact has been well established by different research studies (Law, Leung & Buhalis, 2009). On the other hand, it is crucial for any hotel to identify and to determine the extent to which it should use the services of OTAs for the purpose of online distribution of its accommodation products because the choice of ODCs will have a direct effect on its revenue generation (O'Connor & Murphy, 2008). ODCs open the global market to the hotel, but often at a high operational cost; higher than any other conventional distribution channel (Christodoulidou, Brewer, Feinstein & Bai, 2006). Hence, it becomes necessary for the hotel to offer higher rate category

on such channels to cover up the high operational cost of the channel. This phenomenon often results in rate disparity across ODCs used by the same hotel, including its own website and further creates rate confusion among its online customers (O'Connor & Frew, 2004). This clearly indicates the necessity of judicious selection of distribution channel partners, which will support achieving overall revenue objective of the organization. The total number of channels to be used to ensure revenue maximization is also subjected to systematic evaluation of each available channel for its suitability (O'Connor & Frew, 2004). Hence, a hotel is supposed to use the services of limited number of and carefully selected combination of OTAs, and this pool of ODCs constitutes the Portfolio of Online Distribution Channels (PODC) of that hotel.

The recent trend shows, most hotels are maintaining such portfolio in order to sustain marketing-competition along with a good control over inventory and rates and for many hotels, PODC is the key to revenue success. The degree of dependency on its PODC for a hotel generally depends upon the distribution options available to the hotel; more alternatives reduce dependency and fewer alternatives make PODC inevitable for the hotel. As the budget hotels are operated on tight budget, they have very few distribution options other than online distribution through PODC. On the other hand, luxury hotels avail the services of CRS and GDS also along with traditional intermediaries for distribution. Dependency on PODC, therefore, is the maximum in budget hotels, moderate in mid-market hotels and minimum in luxury hotels sector.

Domestic travellers in India, which presently number around 563 million compared to inbound arrivals of five million passengers (as estimated by audit and consulting firm Deloitte) - clearly indicates the growing importance and demand for mid-market hotels in the Indian hospitality industry. The concept of mid-market hotel is new to Indian hospitality industry and the exact definition of it is yet to be formulated. According to the industry leaders, the term "mid-market hotel" embraces three and four-star hotels that are positioned between five-star/luxury and entry-level budget hotels (Chaturvedi, 2011). These lodging establishments are typically 26 to 300 keys properties and offer clean, comfortable rooms equipped with TV, Internet, toilet supplies and affordable room tariff, often including buffet breakfast to their guests. Still, there is a visible gap between luxury hotels and quality budget hotels in the

country and the mid-market hotels fulfill that gap as both tourists and the corporate travelers are increasing in number. The mid-market segment in India, though at a growing stage now, will be the most demanding segment in the years to come. As the corporate travellers become cost-conscious and leisure travellers always look for value for money options, it is emerging as the preferred choice and the need for affordable accommodation has leveraged the demand for mid-segment hotels. As a result, renowned international chains like the Marriott, Hilton, InterContinental, Starwood and Accor are emphasizing on mid-market brands as they aggressively aim to reap the benefits of expanding newer markets in India. More than 60% of their new ventures are in mid-market category and involve less capital expenditure and quicker profits as the cost to build a midmarket hotel is 60% less than that to build a luxury property (Sathyanarayanan, 2014). Newer OTAs, including global brands, are also entering the arena every day as this rising sector of Indian hospitality industry needs to be supported by an efficient booking system and online booking is the most popular choice at the moment among all available alternatives for the sector.

The wide popularity of online booking, supported by advanced web technologies have initiated significant modifications in distribution strategies for the mid-market hotels, which remained understudied and needs to be studied thoroughly in order to determine its potential implications on all the stakeholders. The following literature review confirms, though significant research studies have been undertaken to establish methods of evaluating individual distribution channel's performance across a variety of hotels (O'Connor & Frew, 2004); research study on evaluating the aggregate effect of ODCs as PODC on the mid-market hotels' performance in terms of reservation and revenue generation is yet to be undertaken.

## **2. REVIEW OF LITERATURE**

Online distribution of accommodation products has gone through many changes in recent past to reach to its present form. Spurred by the introduction of internet, although hotels started shifting from traditional distribution to online mode during 1990s, significant and complex yet user-friendly modifications took place in the last decade. Numerous studies have been conducted to study and measure the effects of these changes on all different marketing elements: suppliers, consumers and

distribution channels. As the objective of the study is to outline the research works on the vertical of online channels for distribution of accommodation products across mid-market hotels, several such relevant research papers published over a period of 12 years (2004 to 2015) in peer-reviewed international tourism-hospitality journals were considered for reviewing and analysis. In the next step, all these articles were arranged in order of their relative relevance to the objective and the first 12 were finally selected for critical review. The year of publication of each paper was also a prime consideration to ensure good representation from each year of the entire span.

Online reservation of hotel rooms is on rise. Đorđević & Janković (2015) studied the modern distribution and development trends of hotel industry and found that, the use of modern technology was one of the most important factors behind dynamic changes in the modern hotel industry and the largest user group of modern technologies was the young travellers (Generation Y or Millennials, born between 1980 and 2000). The authors also estimated that, during 2013, more than one-fifth of room-nights had been generated through online bookings, whereas, it was only 1 in every 12 reservations in 2002 (Carroll & Siguaw, 2005). Through the study, quantitative and qualitative expansion of hotel groups were found to be characterized primarily by creating new brands, within existing corporate groups, thus covering all market segments. At the same time, destinations seeking to maintain or strengthen their position in the future world of hospitality and tourism industry should start working on a long-term action plan comprising a set of strategies that comply in the future needs of the tourism people (Rao, 2014). These phenomena called for adaptation of suitable PODC by hotels for their newly created brands to outreach the target market in order to fetch due revenue.

The evolution of electronic distribution and its effects on hotels and intermediaries were closely examined by Carroll & Siguaw (2005) and found that, the rise of internet-based room reservations put hoteliers in a strategic challenge of controlling their distribution, while also working with intermediaries that could help to sell rooms. According to the authors, online intermediaries eventually captured about half of the room bookings, while hotel groups' websites controlled the other half. The study revealed that, there were a number of bookings made via call to travel agents, while information search and rate comparison were done online. About 20 percent of customers, who looked at the group's website, ended up calling the Central

Reservation Office (CRO) to make bookings. But this scenario is rapidly changing and recent studies have found substantial growth in number of online room reservations (Đorđević & Janković, 2015). The study also found that, the hotel industry was always a preferred source of revenue for the intermediaries and the rapid development of internet technologies equipped them to reap more revenue from this sector. As the dependencies upon online intermediaries increased, intermediaries came up as competitors to the service providers. To counteract intermediaries' attempts to control distribution channels, hotel groups promoted and enhanced their own websites, attracting more web traffic than that of their ODC partners. The study, therefore, brought out the necessity of careful selection of online distributors to keep control over inventory and rates.

Kracht & Wang (2010) examined the evolution and transformation of tourism distribution channels, focusing on the role of internet in such a process. Their study established that, tourism distribution channels attracted tremendous amount of attention in the last decade for their important role in the tourism industry. Specifically, distribution channels served as a part of the marketing mix that made the products available to consumers, linking between suppliers and consumers. The study also revealed, the advancement of Information and Communication Technology (ICT) could not reduce the number of intermediaries in the distribution channels, rather resulted in a compounding array of intermediaries and the structure of the tourism industry took the form of a complex global network. This evolution and transformation of tourism distribution channels, facilitated by ICT, created a more complex industry structure along with increased competition for distribution participants and greater choice for the consumers. The same had an impact on the complexity of the purchasing process as it leveraged online customers with the capability of comparison shopping, without any human interaction. Hence, the authors expressed their concerns about building customer loyalty and protection of the brand value of the service providers - as reaching to the distributor's site often routed through web search engine. Thus, the study again reinforced the necessity of further research towards the direction of online distribution practices in the hotel industry.

Gazzoli, Kim & Palakurthi (2008) found that, the internet had significantly changed the way hotels distributed and priced their products. The authors found the online

intermediaries very successful due to their ability to adopt newer and smarter business practices and often due to poor management and application of hotels' online pricing strategies. Another major reason for these e-intermediaries' success was their ability to provide cheaper room rates than the brand (hotel/group) websites or their reservation offices. The success of online intermediaries caused financial problems for hotel chains since online travel agencies offered better prices than the brand websites, further creating pricing disparities across different channels of distribution. Price disparities among the distribution channels altered the buying behavior of online consumers due to shopping around for better deals. According to the authors, this might lead to brand and rate erosion, if rate parity and rate integrity of inventory could not be assured by the brand owner. The study also found that, the international hotels lacked more in maintaining rate parity and delivering the "best rate guarantee" promise, in comparison to their counterparts in the country of their origin. These globalized companies should project a consistent brand image worldwide by providing almost equal rates across online channels and preferably lower price on their own website than third party sites and thereby ensuring customer loyalty.

The research study conducted by Dutta & Manaktola (2009) tried to outline the present practices in managing online distribution for tourism growth in India. The study discussed about the practices currently employed by the mid-segment hotels for the distribution of their services and sought to explain how they could use this as a tool for working towards sustainable growth. The paper highlighted the elements which should be incorporated in brand websites so as to effectively distribute inventory by making it easy accessible to the tourists looking for accommodation. This would reduce involvement of intermediaries and result in sustainable low-cost economic growth with paperless transaction. As about 73 percent of travelers used internet search engines prior to making bookings and 76.6 percent of those searching were done by using a broad generic term; marketers needed to add keywords in order to secure a higher ranking from generic searches. The study further supported the need for improvement of website functionality to facilitate online purchase with secure payment methods alongside up to date details on prices, special offers and discounts, as all of these were considered necessary to increase web traffic towards the site. It was, therefore, understood from the study that, though using a balanced

combination of ODCs was the need of the time, upgrading hotel's own website alone could fetch many benefits.

O'Connor & Murphy (2008) investigated hotels' yield management practices across multiple electronic distribution channels to find out whether up-market hotels used three following yield management practices:

1. Varying room rates with market demand
2. Varying participation in internet channels with market demand
3. Differentiating rates on internet channels in times of high demand

Their investigation found that, less than one-fourth of the hotels surveyed used the most basic yield management technique - dynamic pricing in response to market demand, indicating more professional management of pricing than in the others. Variables, such as brand membership, hotel size or star rating, failed to explain the reason behind not practicing yield management for the rest of the hotels under study. Varying participation in internet channels in accordance with market demand was not in practice partially due to contractual agreement with the online intermediaries, restricting hotels from closing them off during high demand. Differential pricing on third-party channels to compensate for the higher cost of distribution and equalize net contribution was also low, used by about 10 percent of the hotels. The study though identified the set of yield management strategies used for online distribution in the hotel industry, but reserved opinions about profiling of ODCs and use of PODC for the success of revenue management strategies. This opens the way towards further research on the same.

Christodoulidou *et al.* (2006) investigated the existing challenges of electronic distribution channels commonly faced by hotel operators and tried to find out their solutions. They found, to achieve their goal of distributing their rooms more effectively required knowledge and selection of a variety of distribution channels. One challenge was determining the combinations of distribution channels and the relative number of hotel rooms to be offered for sale through each channel. The hotel's channel management strategy was found to be the key in determining the outlets for room inventory. Hotel revenue managers knew that the cost of selling a room through one channel, such as a consolidator, is different from the cost of selling through the front desk, the hotel's website, or through a third party internet site. The ability to manage and selectively use a multitude of channels was the focus of successful hotel

managers, who concentrated on how to best select and work with third party intermediaries and channels instead of attempting to eliminate them. The study evidently identified the challenges as control of channels in respect to rate parity and inventory, customer loyalty and Customer Relationship Management (CRM) and recommended that, future research should also examine the importance of distribution channels from the consumers' perspective. While managing hotel distribution channels was purely a business operation; consumers' opinions must be valued because the choice of a distribution channel should reflect the needs and expectations of the hotel guests.

O'Connor & Frew (2004) tried to establish an evaluation methodology for hotel electronic channels of distribution, with both economic and non-economic approach. They found that, electronic channels played an increasingly important role in hotel distribution, with most companies utilizing a portfolio of channels to reach the customer in an effective manner. However, channels could not simply be added on as they emerged. System complexity, technical factors and the management overhead associated with using multiple channels prompted that choices must be made between alternative solutions. According to the authors, hotel distribution channels had mainly two separate yet interrelated functions:

1. To provide consumers with information to help them in their purchase decision
2. To facilitate the purchase decision and the purchase itself

One of the key enablers in distributing information and making the reservations process more convenient was found to be the ICT. However, hotel electronic distribution systems were in a state of transition as a result of technological advancements, dis-intermediation, re-intermediation and a shift in the balance of power among suppliers, buyers and intermediaries. Distribution costs were on rise due to the increasing number of intermediaries involved in the hotel distribution process and the complex technological infrastructure needed to support distribution to a growing spectrum of potential channels. The decision as to which channel(s) to use became increasingly complex and hotel managers had little guidance to help them determine which combination would best match their needs. Technical and operational issues were found important, but financial aspects were found to be more important in the evaluation-adoption decision, suggesting that it was the channel's actual performance in practice that became the key determinant in whether to

continue to use it. These findings clearly laid the background for a clear understanding of interrelation between distribution channels and revenue models of the hotels and encouraged research studies towards this dimension.

Dabas & Manaktola (2007) set-up a study to evaluate current room inventory distribution strategies of mid-segment hotels in India and to identify the influencing factors for the managerial decisions in selecting electronic distribution channels for their properties. Based on data collected from five mid-segment hotels in National Capital Region of India (NCR), the study tried to validate the following four propositions, mentioned in its methodology:

- Proposition-1  
Mid-segment hotels in the national capital region of India rely on traditional channels for room inventory distribution.
- Proposition-2  
Electronic distribution through travel portals is perceived to be expensive and not suitable for mid-segment hotels.
- Proposition-3  
There is a scope to optimize RevPAR (Revenue Per Available Room) of mid-segment hotels provided contemporary distribution channels are used.
- Proposition-4  
There is an existing evidence of adequate knowledge amongst managers of mid-segment hotels regarding distribution the inventory over the electronic channels.

After analyzing the data collected through structured interview from managers of the participating hotels, the first three propositions stood supported, leaving the fourth proposition not supported. The study significantly concluded that, the mid-segment hotels in India were not confident about using a mix of distribution channels, including online channels for distributing room inventory. This happened due to lack of awareness about the subject and the electronic distribution through travel portals was perceived to be expensive and not suitable for mid-segment hotels. The study reconfirmed findings of the FHRAI Report (2014), wherein the RevPAR of five-star hotels was found as 2.67 times more than that of three-four star hotels in the same region during the study. This wide gap of RevPAR between these two categories of hotels could be reduced, provided mid-segment hotels started targeting new market

segments and distributing their inventories through all possible channels, including online channels. Thus the study pointed out that, the necessity of distribution of room inventory through online channels was not limited to upmarket and larger group of hotels only, but equally fruitful for mid-segment hotels.

Leung, Xue & Bai (2015) commented that, researches on internet marketing started to appear since 1990 and drawn increasing attention since 2000. More academic researchers were increasingly seeking to understand new technologies, explained new phenomena, discussed updated applications and forecasted future developments brought by the internet. An evidence of this trend was the increasing number of research articles on internet marketing in the hospitality and tourism journals. According to the authors, about half of the online marketing articles (46.5 percent) were devoted to studying consumer behavior, whereas the articles on marketing function through distribution channels constituted only 3.9 percent. The same was supported by Line and Runyan (2012) as they mentioned that, despite the increase in technology adoption and e-distribution research, other e-marketing issues were relatively under-researched. During the period of 2008-2013, plenty of new topics emerged and turned to be the hot topics in the areas such as, experience, trust/loyalty, e-WOM/satisfaction/complaint, decision-making/purchase intention, social media marketing, search engine marketing, online branding/image, pricing issues, distribution channel and marketing effectiveness. In this period, hospitality and tourism businesses strove for a deeper understanding of their online customers. Businesses were interested in knowing the reason behind customers making online purchases, what factors affected their online experience and their loyalty and what triggered their purchase intention. During this period, research focus was not only on the customer side but also on the business side. The authors also suggested that, internet marketing research might combine information technology and social psychology theories with communication theories to develop ground-breaking models for scientific inquiries.

It is clear from the above literature review that, online distribution in the hotel industry is currently undergoing rapid evolution. Developments in internet technology have acted as a catalyst, prompting growth in both competition and cooperation between channel constituents, resulting in a significant increase in the number of potential channels available. Strategic selection, adoption and usage of online

channels have become necessary for sustainable lodging business due to associated costs and benefits of each channel. As the literature contributes a little towards this direction, the process of selecting online channels based on their merits and their collective effect as PODC should comparatively be evaluated and a systematic approach will be used to explore the issue.

### **3. CONCLUSION**

It is highlighted by the above literature review that, more and more hotel guests are opting for online mode over other available modes of reservation around the globe. It has been possible due to multi-dimensional development of ICT and its easy access to a greater number of online visitors and potential guests. Hotels must concentrate on online distribution strategies to gain the best benefit out of it. The significance of online distribution of room inventory has been well studied and accepted, but management and strategic application of the same in the industry are still not satisfactory. It is mostly due to lack of technical know-how of the subject and failure to recognize its latent potential. Although many hotels have started distributing their inventories through online channels, as it gives them global exposure and better positioning, but often at a high operational cost. Cost of distributing inventories on each online channel is not the same, neither the benefits they bring to the hotel.

The degree of dependency on online channels for distribution also varies according to the type and target market of the hotel. This calls for the necessity of selecting only profitable ODCs integrated with the revenue management model of the organization. In order to meet revenue management objectives, it is of utmost importance for a hotel to carefully evaluate the performance of each available channel before accepting its services. Researchers have established methods for evaluating ODCs and hotel managers can use them for prioritizing the choice of their distribution needs. As a hotel can use only limited number of channels, only the highly profitable channels must be chosen. These chosen ODCs will constitute the PODC of the hotel. The challenge, therefore, is the process of configuring the PODC, which is capable of generating the highest possible reservation and revenue for the hotel.

Through the course of this extensive literature review, multiple research gaps in the area of online distribution of accommodation products have been traced. It has also been found that, the Indian hotel industry is yet to address the issues related to online distribution in a matured professional manner primarily due to lack of grasp on the subject and unavailability of a reliable, convenient and business oriented tool to evaluate potential of each available ODC, in order to constitute an effective PODC. Some of these major research gaps, further researchable in Indian context along with their future research potential, have been outlined below.

There are many online channels available and hotels need to use multiple channels for effective distribution of their accommodation products in order to revenue maximization and sustain competition. Pertinent guidance is grossly missing in this respect due to insufficient study on use and contribution of multiple channels for effective distribution. Moreover, a commonly accepted framework to measure each online channel's effectiveness and agreement as to which factors to measure are yet to be established. Thus evaluation decisions are generally made without a clear frame of reference and common understanding by the hotel managers. Hence, further research studies may focus on identifying the factors that influence the hoteliers' choice of online channels for distributing their accommodation products.

The number of ODCs to be used in PODC must be optimized against relevant parameters, such as contribution margin, as more channels add on to operational complexity and overheads. Hotels generally lack on deciding number of channels based on proper evaluation due to limited knowledge in the field. A thorough evaluation of each channel is required, but commonly agreed and simple process of evaluation is yet to be established. Future research studies, therefore, must be initiated for setting up of a framework to evaluate each available ODC in order to determine its suitability for inclusion in the PODC.

The literature review also confirms that, the concept of PODC is very new to Indian hotel industry and thus it requires more attention and scientific studies in order to understand its importance and scope of application to the hotel industry. Performance comparison among PODCs across different type of hotels is yet to be attempted and research work in this vertical is in a nascent stage in India and thus, demands more focus on the same for an in-depth knowledge of the subject. Hence, it is necessary to compare the performance of PODC across different category of

hotels at different geographical locations for a better understanding of multidimensionality of the subject.

Future research should also examine the importance of distribution channels from the consumer's perspective. While managing hotel distribution channels is purely a business operation, consumer's opinions must be analyzed because the choice of a distribution channel should reflect the needs and wants of hotel guests. Effective strategies for building smart and engaging brand website in order to attract more web traffic towards it should also be studied as it will help the hotels to minimize commission payable to the OTAs. The factors affecting the consumer's choice of online channel for hotel booking may be studied with a special reference to the social media and electronic word of mouth (e-wom). The areas such as, effects of online pricing and distribution on consumers and ways to keep hotels' yield management strategies aligned with online distribution strategies are still understudied. Future research studies may also be set to address the issues related to rate parity, brand erosion and customer loyalty due to multichannel distribution pattern.

Some research studies have been conducted in Europe and America to evaluate and to determine the performance of individual electronic and online distribution channel. Similar research is yet to be undertaken in those countries that have a huge economic and demographic potential, such as India and Brazil. Researchers used Delphi Study with experts in the field of hotel electronic distribution and Data Envelopment Analysis - Balanced Scorecard (DEA-BSC) model to measure efficiency of distribution channel mix and suggested possible industrial application of the same; although they lacked in providing a comprehensive, simple and easy to exercise method to be practiced by the hotel managers. Moreover, the criteria for forming a profitable PODC and its consequences on a hotel, in general, were not considered. It is therefore concluded that, determining the best suitable PODC for hotels is yet to be attempted. A few similar studies towards this vertical have been undertaken in India, too, where generalizations are moot points due to use of small sample size for the studies. Taken as a whole, it appears that, a holistic study to determine the process of configuring PODC for mid-market hotels and to compare their performance in terms of reservation and revenue generation is necessary in order to establish its suitability for industrial applications.

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