The role of OTAs in the distribution process of Spanish Hotel Chains

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Abstract

One of the most outstanding challenges that the hotel sector has ever had to endure has come in the form of the predominant position that the so-called Online Travel Agencies (OTA) have managed to garner in recent history, thus radically modifying the electronic distribution chain as we know it.

The effective application of the “merchant” model, has, in turn, obliged hoteliers to pay high commission rates, while increasingly losing control over their inventories and final sales prices, due to potential customers being increasingly compelled to perform their purchases through means of on-line intermediaries.

The present paper aims at analysing the relation between the hotel sector and the OTAs, so as to successfully pinpoint the various strategies the former can undertake so as to mitigate their dependence to the latter. Further along the document, a study will be laid out, revolving around the degree of utilization of aforesaid strategies, as well as the most common business model and the companies most requested by Spanish hotel chains.

Keywords: Online Travel Agency, Hotel distribution, intermediaries, touristic mediation, online distribution.

Introduction

Technology has always played a fundamental role in the tourism sector, especially when it comes to reservation and product-distribution processes. The technological revolution from the 90’s, in which Internet radically transformed the distribution and commercialization systems, would also bring forth a new business model; the so-called OTAs. The first OTA to ever exist was designated the Internet Travel Network, created in 1995 by Dan Whaley and Bruce Yoxsimer in Palo Alto, (California), swiftly becoming the very first online agency to ever manage to display room hotel and vehicle availability in real time, through direct connection with the GDS Apollo. This way, the GDS transitioned from being mere technology providers, to competing with their former customers, through direct involvement in the sales of touristic products. Subsequently, a year afterwards, the GDS Sabre created its very own OTA, Travelocity, in an attempt to topple the traditional system. Travelocity quickly acquired a comparative advantage over the marketplace, and remained a leader company until 2001.

Also in 1996, Microsoft, in collaboration with the GDS Worldspan, launched the OTA Expedia, which allowed the customer to perform online hotel, plane and car rentals. These features granted Expedia the leader position in the market ever since 2001 (Longui, 2008; Granados, Kauffman and King, 2008a; Borja and Gomis, 2009, Joyce, 2013). Three years after its creation, and thanks to its high volumes of income, the OTA Expedia ranked among the ten major travel agencies in the US. Its growth has been so overwhelming that it managed to remain the undisputed global champion in terms of income until 2014, in which its great competitor, Priceline, eventually surpassed it. The very first Spanish OTA was Viajar.com, created in 1999, and finally acquired by Rumbo in the year 2007. It is currently part of Bravofly Rumbo Group, one of the major European OTAs.

It is precisely in this new distribution environment, which brought along the possibility of “de-intermediation” with it by improving customer access to direct contracting, that the appearance and global growth of the OTAs creates, yet again, a strong dependence from providers towards the intermediaries. This last development, besides generating immense revenue for the OTAs, purports that hoteliers become victims of an increasing loss of control over room pricing, as there is a shift of power that veers towards aforementioned online middlemen. (Thakran and Verma, 2013).

In the present day, there is a continuous growth of competitiveness in the hotel distribution sector, highly defined by a continuous growth, the incorporation of services (search, opinions) from the OTAs, and the incorporation of providers in the meta-searchers, which, in turn, turn them into a Brand new channel for hotels and collaborative economy platforms alike. Technology evolves at an ever increasing pace, thus fostering change in customer’s expectations, towards new and unforeseen directions (O’Connor, 2016).

In the first half of 2015, 64% of all the online reservations were made through a direct channel, while 36% were performed through OTAs (64:36 brand.com to OTA), which brings forth an increment in the distribution through OTAs of about
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22%. This data remains rather unfavourable from a hotelier’s standpoint. Furthermore, due to the recent incorporation of OTA-based services into the main search engines, such as “booking in Google” and “TripAdvisor’s Booking”, the overall distribution of direct-web-channel vs OTA may reach a 50:50 distribution during the next three years (Starkov and O’Brien, 2015). The main forecasts of the North American market for the present 2016 point out that the revenue levels generated by the OTAs will surpass for the first time those achieved by the hotels through direct-web-channels, ultimately reaching a proportion of 51:49, in favour of the OTAs (OTA vs direct-web-channel), which imply a great decrease in direct sales, when compared to 2012, in which the ratio was 46:54 (Starkov, 2016). The hostel sector constitutes the sole touristic sector in which OTAs are increasing their market share, at the expense of the direct-web-channel; direct online revenue stemming from the airline, car rental and cruising sectors are increasing thanks to online travel agencies, as of 2016. On the other hand, the previously provided information regarding the hotel sector remains rather far-fetched, as it primarily takes great hotel chains into consideration. When it comes to independent hotel chains, the OTAs have already absorbed more than 60% of the on-line reservations, and it is very probable that this cipher will surmount to up to 70% (Starkov and O’Brien, 2015).

It is left patent that the current victors of the on-going hotel distribution battle are the online intermediaries, which have grown due to the commissions paid by their providers.

We believe that it is necessary for the hotel chains to analyse and understand the dynamic of their very own relationship with the OTAs, so as to be able to develop strategies that are properly implemented in the short-run, and which are able to effectively avoid any excessive dependency. Thus, the main objectives of the present investigation are the following:

- **Objective 1.** To determine the percentage of direct distribution and intermediaries, both online and offline, used by Spanish hotel chains, discerning which amount corresponds to OTAs.
- **Objective 2.** To define the percentage comprised by the distribution costs in terms of earning-per-reservation in the Spanish hotel chains, relying on the typology of the channel, and the intermediaries employed, specially the cost of the OTAs.
- **Objective 3.** To determine the OTAs business model mostly used by Spanish hotel chains.
- **Objective 4.** To identify the most frequently used OTAs by Spanish hotel chains for product distribution, both nationally and internationally.

**Theoretical framework**

The OTAs constitute one of the multiple innovative online-business models that were created as a consequence of the deep changes brought by the creation of the
Internet onto the tourism industry. These travel agencies only exist on the Internet, and they do not possess physical premises of any kind. The novelty lies in the possibility of cross-searching the various options and prices offered by a great number of providers, through exhaustive databases, which, in turn, render the traveller feeling as if they were personally designing their own trip (the so-called, “dynamic package”) (Garrido, 2010; Talón et al., 2012).

The OTAs encompass three different kinds of business models, which incorporate sophisticated pricing and segmentation strategies:

-Merchant model (Net): This model is an unrestricted adaptation of that used by tour operators. The OTA will first negotiate with the hotelier a specific net rate, and it will subsequently hire a specific number of rooms each night, (the so-called assignation), it shall afterwards sell the rooms, applying a margin of profit. When the OTA is not able to sell the aforesaid rooms, it could always effectively return them in the last minute, without penalties of any sort.

The OTA would thus attain a profit of circa 17% - 35% over the total net price, depending on various factors, such as the type of agreement reached with the Hoteliers, or whether the room is being sold individually or as part of a package. In order to achieve price parity\(^1\), and not to lose control over the product, the hotels ought to set the minimum boundaries so as to ensure prices coherence; in other words, it must regulate the amount that is added to the price (the mark-up), so as to adjust it to the BAR. Furthermore, the hotelier should establish control clauses over the distribution to third parties. Unfortunately, control over pricing is not always feasible, as not every hotelier nor OTAs fulfil these requisites. It is not uncommon that various mark-up limits are arranged, depending on the room type, and the time of the sale.

The client usually pays the reservation through the OTA beforehand, and the latter liquidates its debt with the hotel once the customer has consumed the service. Therefore, the OTAs seek for partners which are able to ensure constant availability of their inventory, and thus, most of the current agreements incorporate the LRA (Last Room Availability) clause, which establishes that, as long as the hotel possesses a vacant room in any of the categories that might have been previously negotiated, it must make it available for the OTA if the latter so requires, including the last room available in the pertinent category.

Through this clause, the OTAs prevent the hoteliers from potentially closing any deal through direct sales. Were the hotels not to partake in these agreements on a steady basis, (e.g. by refraining from offering half of their inventories on peak season) the OTAs would reject working along with them Expedia, Travelocity and

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\(^1\) Rate parity remains a prevailing market rule, ever since the first OTAs appeared. Nonetheless, it is bound to disappear, as several countries, the likes of the United States, have already abolished such practice; meanwhile, various European nations, including France and Germany, have faced legal issues with regard to that topic, in which courts have ultimately favored hotel chains.
Orbitz are but a few of the most renowned OTAs, which dominate the market through means of the Merchant model.

-Retail Model: The hotel offers a specific tariff to the OTAs, which the latter will then use as their final retail price. OTAs earnings through these commissions tend to amount to an average 10% of the total tariff, (often the BAR). This model does actually allow hotels to exert higher control on room prices, as the OTAs fundamentally play an arranging role; The client books a room through means of the OTA, yet the payment usually goes directly to the hotels, once the check-out is performed. It is then that the hotelier will pay the pertinent commission to the OTA.

This model is currently employed by a wide arrange of OTAs, as it holds similarities to those used by conventional travel agencies. So much so that many hotels and resorts, located in relatively under populated areas, or remote destinations, resort to this model as their exclusive sales’ channel.

For the last few years, Booking (a subsidiary of Priceline) has ruled the European market for this kind of model. As a matter of fact, it constitutes a 50.1% of the total online reservations, according to Internet WorldStats (2015). As of 2010, it penetrated the American market, and swiftly gained market share, thus becoming the dominant Retail Model- based OTA.

The merchant model remains the most lucrative for the OTAs in terms of margin of profit, mostly due to the fact that it allows the OTA to retain the hotelier’s money until the customer has effectively consumed the service. On this regard, several OTAs allow for direct payment to hoteliers through means of a credit card, albeit at the cost of a transaction fee (approximately a 2% over the total of each sale), which subsequently diminishes the hoteliers’ already thin margin of profit.

While most of the OTAs often favour the merchant model as their primary business channel, it is not infrequent for them to offer alternative retail models on their web-sites, both for those instances in which customers don’t want to pay in advance for a room, and also so as to be covered in those markets in which hotels do not seek to operate through a merchant model. However, those hotels that resort to the merchant model tend to have better exposure on the OTAs respective web-sites than those that have opted for the retail system (Estis and Lomanno, 2012).

- Opaque model. It may be regarded as a variety of the merchant model, as since great part of the opaque inventory is sold using net tariffs. It receives its name from the fact that the name of the hotel in which the reservation is being made remains unknown to the customer, thus the choice is mainly based on the tariff, category and overall information regarding the geographical location of the hotel, without disclosing any detail regarding the kind of room, hotel chain or key features of the hotel (Lee and Jang, 2013). The name of the hotel will only be revealed once the transaction has been completed.

Another instance of an opaque model consists in the hotel providing net tariffs to a particular OTA, the difference lying in the fact that these tariffs are applied to packages that combine multiple touristic services, and the customer is not actually aware of the individual cost of each element of the package. Furthermore, aforesaid tariffs are non-refundable.
Very much alike the merchant model, hotels applying the opaque model offer their partner OTAs a Net tariff; however, it is the latter that have the final saying over the prices that will be displayed on their respective web-sites. In this case, the OTAs’ margin of profit surmounts to up to 35%-50%, over the Net total.

Opaque tariffs provide those tourists that are more sensitive to price levels with an affordable option to stay in hotels through great discounts, all while enabling the hoteliers to sell their remaining rooms (also known as “distressed inventory”) at a lower price without it having a direct impact on their other distribution channels, or pricing structures, (Lee et al., 2013) and therefore, its positioning (Talón et al. 2012).

This method fosters a win-win scenario, as customers are able to attain an added value for their purchase, while hotels avoid being exposed to brand image erosion (Lee and Jang, 2013).

The apex of the merchant model

On the pre-internet era, the remuneration process for the intermediaries was relatively simple. Travel agencies received a standardized commission, (usually a 10%), on change for room sales, while tour operators would earn substantially reduced net tariffs (the so-called Foering Individual Travel tariffs, or FIT), as long as they were only sold as part of packages, thus concealing the fact that said tariffs had great discounts applied on them.

When the usage of Internet became widespread, on-line intermediaries did not accept the fact that, after having invested large amounts in infrastructures, brand building and merchandising, and their commission would only account for a 10% of the total. It is worth noting that many of these intermediaries started their business outside the tourism sector, and, as such, they were more willing to challenge the traditional means of commissioning that were present on the tourism market at the time. Moreover, many of these companies had gone public and were forced to speed up their growth in order to remain profitable. On a related note, it is necessary to point out that during the third quarter of 2011, the market capitalization of Priceline exceeded the 27 million-dollar mark; this amount is at least three times bigger than that of any other hotel (Estis and Lomanno, 2012).

The merchant model would soon arise as the solution, as it brought along an increment in the commission rate that was allocated to the OTAs; it was widely well-received by the hotel industry, and it soon turned out to be a game-changer, going as far as altering the intrinsic nature of the provider/intermediary relationship. In an economic environment in which hotels had to undergo great efforts in order to sell their rooms, this kind of agreement seemed to favour a win-win situation: hoteliers would gain access to an all-new, powerful channel of distribution, while the online middlemen would seize higher room volumes, reaching even higher profit margins, as it was the latter that would set the retail prices. In spite of the subsequent decrease of that margin for the OTAs, (specially when dealing with big hotel
chains, with high negotiation powers), industry estimates still place the average cost of room sales based on the merchant model at more than double the price of commission-based sales.

Hoteliers would then start to realize that the merchant model implied a substantial loss of control over the sales of their own product (O’Connor and Piccoli, 2003), and thus they found themselves tied to restrictive contracts with very reduced prices. The OTAs would also demand inferior net tariffs to those the hoteliers were willing to concede, as well as pressed the hotels to re-negotiate the tariffs, if they wanted to improve their positioning in their respective web-sites. In addition to this, some intermediaries recurrently resell rooms at highly competitive prices, even cheaper than the tariffs currently standing in their web-sites. Expedia, for instance, only lists on the first positions those hotels that participate in the so-called Expedia Special Rate (ESR) program (Lee et al., 2013). Hotels are, of course, free to refrain from participating, but in doing so, they would risk losing high reservation volumes.

O’Connor and Piccoli (2003) believe that the hotel industry reacted late to these threats, both at an individual level (by refraining their respective hotels from giving low fares to the OTAs, while promising the best possible prices to those customers that purchase through their web-sites) and at a collective level (through inter-hotel chain collaboration, and following a similar strategy to that of Orbitz in the airline sector, by creating TravelWeb on the American market, and WorldRes Europe in the European one), in an attempt to take control back from the price-fixing agreements, and the merchant model used by online intermediaries.

Three of the biggest hotel companies in Europe (the French hotel chain Accor, the British Hilton and Six Continents, and the American electronic commerce company, WorldRes.com) embarked on a joint venture back in 2003, aimed at commercializing and selling their hotels throughout Europe. Another joint initiative stemming from the main American hotel chains, with the aim of selling the inventory through channels other than OTA, has led to the creation of Roomkey.com, in whose inception intervened Marriott Hotels & Resorts, Hilton Worldwide, Hyatt Hotels Corporation, Wyndham, Wyndham Hotels and Resorts, IHG, and Choice Hotels International. RoomKey does not act as an intermediary, but instead it is a hotel-specific search engine (or better yet, a Meta-researcher), in which reservations are directly carried out through the very own web-sites of each hotel chain. This business model is a hybrid between current meta-researcher technology and the OTAs.

Some international hotel chains, such as the InterContinental Hotel Group (IHG), or Choice Hotels withdrew their inventory from both Expedia and Hotels.com; two of the most prominent OTAs that were not willing to carry on with tariff integrity and price parity. Other anti-OTA movements have sprung among London-based, independent hoteliers, which, on the occasion of the 2012 summer Olympics, created their own reservation platform in order to stand a chance against OTAs abuse, and which would go on to increase commissions up to a 151% (Hayhurst, 2012). Last but not least, it is worth mentioning that four major Scandinavian hotel chains cancelled their contracts with Expedia: First Hotels, Nordic Choice, Scandic Hotels,
and finally, Thon Hotels. They would rescind their agreements due to major issues with price parity and commissions (Canalis, 2013).

In spite of these efforts, the 2008 economic crisis left many hotels seeking to compensate financial losses by, once again, reinforcing their cooperation with the OTAs, hampering the previous efforts to establish and develop a direct channel and harming tariff parity and better prospects, in the process (Pilepić, Šimunić and Car, 2013). The sudden appearance of flash-sales’ sites, which offered high reservation discounts, also contributed to prompt customer’s price sensitivity to reach an all-time high (Thakran and Verma, 2013).

In accordance to Starkov and O’Brien (2015), before the economic crisis struck back in 2007, 85% of all the online reservations were made through a direct web channel, while just 15% were made through OTAs (85:15 brand.com vs OTA). From thereinafter, and until 2012, the paradigm started to shift in favor of the OTAs (72:28 brand.com vs OTAs).

As stated by O’Connor in Canalis (2013) for Europe only, OTAs billing grew a 13% in 2012 alone, while the revenue generated through provider’s web-sites showed an increase inferior to 8%, significantly decreasing its margin of profit. This way the strongest hotel chains would go on to lose more than 13% of their total online-market share. This loss would nothing but increase in the case of small hotel chains, and independent hotels.

Some authors, the likes of O’Connor (2016), Lee et al. (2013) and Zhang et al. (2015), advice hoteliers to associate in order to avoid the OTAs’ bad practice; by sharing information regarding potential conflicts and their working procedures, they might clarify their mysterious data-processing. This way, for instance, hoteliers from the same city or area may create groups through professional platforms, such as Linkedin.com, in order to be able to share information, or to create consortiums, which, beside favouring economies of scale, will allow them to create collective inventories in order to access the OTAs’ and thus achieve joint negotiation-capabilities, in order to avoid further loss of control.

Cost and remuneration

The average commission currently stands at 15%, although this percentage heavily relies on the geographic market. For instance, there are those nations, such as Japan, which pay lower commission (around 10%-12%). Most of the hotels around the world pays between 5% -25% over the tariff; in this regard, Orbitz remains the most expensive, with a total 33%, while the lowest tariffs revolve around 4%. A study undertaken by Delgado (2015) for “el Blog de Mirai” estimates that the average commission (tax included) paid by the hoteliers to the two most relevant OTAs (Booking and Expedia) lies somewhere between 16,5% and 34.2%.

According to Deloite (2016) in Spain, the intermediation costs oscillate between 10% and 20%; a slight reduction over those of the past year, which reached a
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maximum 25%. However, in spite of this data, many hoteliers (particularly the smallest ones, which often have to deal with the highest commissions) still consider online intermediaries a necessary evil, and would rather undergo the costs that this partnership entails than having to singlehandedly undertake the administrative expenses that derive from the direct sale (Toh, DeKay and Raven, 2011; Zhang, Guillet, Kucukusta, 2015).

Tudori and Haynes (2012) offer three possible explanations for this high level of commissions: Their main claim is that this may be due to the impact of the high commissions applied by the great labels, such as Expedia or Orbitz, due to the sheer volume of their reservations, which in turn increases the average commission rate.

A second hypothesis would revolve around the disposition of independent hotels towards these commissions, as they frequently accept to pay higher commissions due to their limited bargaining power, but also due to the relative effects of the so-called Billboard effect (Anderson, 2009; Anderson, 2012). The Online Travel Shopper’s Journey study, published by the AH&LA Consumer Innovation Forum, points out that a 7% of the customers visit the OTAs’ web-sites, but end up making the reservation through the hotel’s site instead (Mourier, 2016).

Given the growing opposition against the merchant model that has arisen over the course of the last few years, the newly-born mediation techniques are opting for payment-for-performance compensation models. The meta-researchers thus seek for a compensation, based on the overall volume of the business they are directing towards the hotel, and this one can apply a cost-per-click model, in which the intermediary charges a specific amount per visitor that is sent to the hotel’s web-site, or per overall cost of purchase, in which the intermediary only gets paid whenever a customer purchases a room. Unlike the merchant model, there are no quotas, nor discounts to manage; only the prospective payment, when a sale is performed. This model may potentially become highly popular, as it balances out the necessity of cost-minimization of the hotel and the income requirements set by the intermediary, rewarding those that successfully manage the hotel business (O’Connor, 2008).

The merchant model is gradually evolving to this other method, the so-called commission override.

As a matter of fact, some traditional tourism firms are already applying the aforementioned model, such as American Express agencies, which have been able to negotiate higher commissions, ranging from a 2% to 5% higher than the 10% norm, built on their commitment to generate superior reservation volumes.

Starkov (2010) proposed that the hotels structured the commission model on a scale or by ranks, in accordance to the potential turnover that is to be provided to the OTAs. This is: for income ranging from 500 and 125.000 dollars, a 10% commission ought to be established, while for income ranging between 125.001 and 250.000 dollars this rate should consist in 11%. All in all, he proposed a 1% increase in the commission per each increment of 125.000 dollars in the progression.

The sector expects the great hotel firms, which hold the most bargaining power when dealing with the OTAs, to be the ones to take the first step towards the
implementation of the new model, and that they take advantage of the opportunity at hand so as to effectively change their retribution model.

Price parity

Pricing constitutes a decisive element when it comes to distribution, and yet, it has been greatly affected by the development of the TICs, as market transparency, brought forth by the arrival of the internet, has allowed the customer to easily compare products in terms of price and features (Buhalis and Laws, 2001; O’Connor & Frew, 2004; O’Connor, 2008). Meta-researchers have also eased this process, as they have decreased search-related costs; thus, when a customer makes a reservation, meta-researchers actively seek actively the lowest fares and are able to spot any variation or inconsistency in the price. This transparency calls for constant price coordination, so as to avoid a continuous conflict among the potential intermediaries affected (O’Connor and Piccoli, 2003).

The very own fact of finding more economic fares through intermediaries than by directly reaching to the hotel has led many investigators such as O’Connor (2008) or Gazzoli, Kim and Palakurthi (2008) to believe that hotels have established random prices in their distribution channels, without barely knowing how their actions may have taken their role on their own revenue and the overall profitability, and, that, in a way, they lose the control over their product sales. This belief is backed by the main cause of success of the very first online intermediaries: their capacity to generate more economic tariffs than those offered by the web-sites or call centres of the very own hotel chains.

So as to be able to grant these prices, the OTAs have always demanded in their contracts to have the lower fares in the market, and to be able to determine the final retail price, which, in turn, leads to the weakening of direct channels.

Although tariff disparity does not stem from a highly elaborated commercial strategy, it remains the only way to satisfy everybody, and it has managed to remain the most relevant solution throughout the last decade due to lack of alternatives within the realm of multichannel distribution (IDISO, 2012). The decision to opt for this parity shall depend, to a great extent, on the level of dependency the hotel has towards its distributing network. In the present day, 30% of the hoteliers surveyed assert that the overall joint volume brought to the table by Booking.com and Expedia in their respective hotels far surpasses 20% of the total sales’ volume.

The risk of doing without the business brought by these intermediaries may in turn prove itself more pernicious for the hotels than whatever benefits it might eventually provide (IDISO, 2012).

Finding the same product at different prices in multiple web-sites may prove to be confusing for the customer, as well as pose yet another challenge for the hotel businesses since offering cheaper prices at a third-party site may eventually lead to cannibalization. In order to avoid that potential hassle, many businesses have
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developed eminently logical approaches to pricing, through multiple channels or by applying the best retail price, through means of the BAR (Best Available Rate) tariff. In spite of the clear advantages offered by the application of parity, it keeps hotels from effectively differentiating their services through a concept as relevant as pricing.

However, the current tendency leads towards the market diverging far away from such parity. As a matter of fact, the American market has positively eliminated it, while Germany, Italy and France have established bans on price parity clauses. According to the CEHAT (Confederación Española de Hoteles y Apartamentos Turísticos) “these European choices, ought to be applied in the rest of Europe, in a rather short amount of time by big platforms if these don’t want to see themselves dealing with substantial sanctions and the potential rescission of contracts currently agreed with hoteliers” (Hosteltur, 2015) so tariff parity should disappear.

Client’s properties

Online intermediaries offer their products based on pricing or signed commercial agreements, instead of relying on the very own attributes of the products or labels themselves, hoping for the clients to ultimately develop loyalty towards their brand, instead of those of the hotels they feature in their sites.

Market transparency has thus fostered the commoditization of the touristic product, while undermining the brand image of hotel companies, and leading customer loyalty towards hotel businesses to drop considerably. Aforesaid commoditization of the hotel product, in which hotels are forced to compete against the OTAs, based on price solely leaves the former little to no room to properly convey their products’ actual value to the potential customers.

In order to effectively counter these practices, and so as to sell “value” instead of merely selling “price” hoteliers need to reassess their practices in order to develop an effective merchandising strategy that is directly applicable to their websites (Starkov and O’Brien, 2015). Therefore, branding remains a fundamental tool for achieving a competitive advantage, which will prevent customers from constantly seeking cheaper products or channels, based solely on the price of the deal. The big OTAs, such as Expedia, Orbitz and Priceline, are also trying to differentiate from one another, through web content and web-specific features, so as their clients do not perceive that their databases possess similar results (Kracht and Wang, 2010).

Even though a great portion of the criticism towards the OTAs revolves around profit margins and price control, there exists a far more relevant strategic factor that shall be thrown into the mix for further consideration, as it provides enough evidence so as to make major strides towards attempting to attract customers through direct channels; this factor is the customers’ loss of knowledge (O’Connor, 2008). Those intermediaries that operate strictly through the merchant model do not usually display relevant information in their reservations, and just disclose the guest name, arrival date, and the length of the stay. This fact severely hampers the hotels’ ability
to further customize the service provided, as well as hindering potential marketing efforts (Piccoli et al., 2003).

On the other hand, various OTAs, which operate through the retail model, such as Booking.com, have expressly barred their partnering hotels to undertake any sort of direct marketing with their customers. As such, the hotels may not use the customers’ e-mail address that was provided during the reservation process. Furthermore, it cannot use said mail for direct marketing purposes, even if it was attained directly at the reception desk.

Consequently, hoteliers must seize the opportunity when hosting their customers and those of their intermediaries, so as to generate long-term, meaningful relationships, which will generate added value, and help their establishments differentiate themselves from their competitors. Customers often appreciate the feeling that they will receive a bonus from the hotel; free breakfast, free wifi connectivity, free tickets for a local show, or cell-phone check-in availability, among others. This would provide an added value to the customer, all while barely raising the expenses, aside for the accustomed commission to the OTAs. The airlines’ industry have successfully implemented similar actions, which resulted in better direct-captation of the customers, such as the possibility to choose one’s seat, Access to VIP rooms, etc. Thus, these airlines have not only improved the direct-reservation experience, but also have stumbled upon a reliable way to generate new sources of income. In the case of the hotel industry, the possibility for the client to book a specific room, or request additional services, which are not available by means of the OTAs, should be provided, as it would generate increased revenue. This stands true as not every client is looking for the cheapest hotel, but many of them seek for the “best value” (DiMaio, 2016).

Therefore, active branding and the possibility to provide added values to the customer will further develop this sort of relationships, and effectively increase customer loyalty, which translates into increased stays, expenditure, and future repetition of the service.

This said, it is imperative to keep in mind that the key for success in the building of these relationships revolves around the effective captation of customer data, which will help the hotel create profiles and identify the clients’ individual needs, so as to tailor personalized and differentiated experiences for each customer (Lee et al., 2013; Andrés-Martínez et al., 2014), this is why hotels have to further invest in the so-called big data and business intelligence technologies, since the acquisition of new customers is estimated to be around 5 to 7 times more expensive than keeping the current customer base (Kotler et al., 2006). Building relationships is also a matter of coherence, yet this is a complicated feat to achieve; this stands true mostly for great hotel chains, due to them being geographically sparse.

The OTAs brand image

The results thrown by the VI Kayak Barometer on online trips (2014) regarding the search habits of the Spanish travellers point out that 57% makes hotel
reservations through the OTAs, while 15% does the same via the hotels’ web-sites. From a client’s standpoint, purchasing via OTAs entails obvious advantages, as they provide with an integral travel experience that encompasses a great variety of brands and other related services, and they do so through innovative operative methods.

Unsurprisingly enough, the OTAs have gradually managed to position themselves as the go-to sites for the reservation of tourist products, and they have accomplished so through the systematic investment of millions of dollars in marketing campaigns, factually convincing customers that their web-pages hold the best deals and services in the process. The OTAs also actively try to cement brand loyalty by improving customer interaction, in order to better recognize frequent and high valuable customers alike, which, in turn, allows for strengthened relationships and the added capability to ‘orient’ the former towards more competitive products.

The OTAs have also undergone huge disbursements to gain advantageous positions within Google’s search engine, thus affecting the hoteliers as a whole, because this increases the costs of product-related keywords immensely and obstructs potential SEM campaigns that might favour the direct channel. The exponential increase in cost-per-click, primarily driven by direct demand from the main OTAs and supported by the sheer opacity of the bidding system, has forced the hotel sector to reconsider their long-term marketing strategy regarding search engines, according to IDISO (2012).

It is rather paradoxical that the very own hoteliers finance the OTAs marketing plans through their commissions; hotel reservations make up a 30% of the total volume of reservations of the OTAs, and yet they constitute more than 60% of the total revenue, while plane tickets and car rentals encompass 51% of said volume, but merely generate 12% of the income (Starkov, 2010).

On the other hand, the OTAs mega-campaigns have left hoteliers with no other choice but to cooperate if they want to remain visible, under the promise that by doing so they will reach customers that would be inaccessible, otherwise. In practice, however, the reality stands that many of those customers would have indeed reserved a hotel room, and at much higher rates.

Many clients have learnt that they will get better prices if they wait until the very last minute in order to make their reservations, while others reserve beforehand, actively seeking to achieve better prices, so as to cancel the original reservation. This practice leads to a cannibalization of the various channels.

While the hotel industry is not as consolidated as the airline industry, it may as well follow its trail and offer a wide variety of differentiated services for customers that make the reservations directly through their web-sites; for instance, some airlines will not reward fidelity points, or will forbid seat upgrades to those customers that have made their reservations through on-line intermediaries. Casinos are also familiar with this kind of practices. The company Caesar’s Entertainment has developed a fidelity system of which one can only benefit if the reservation has been made directly.

Customers are given points rather easily, and prizes are sometimes awarded beforehand, in proportion to the amount of money spent in the casino. Thus, the
more money, the more flexible the company is when handing the reward. As an Exchange for said program, participants are to provide Caesar’s with their socio-demographic information and consumption habits, in an effort to develop a profile database, which the company shall use afterwards, during its decision-making processes (Freed, 2012). O’Coonor (2008) considers that this kind of measures is necessary, in order to ensure direct interaction between the customer and the hotel during the distribution process.

Regardless of which strategy they have adopted for dealing with the OTAs, hotels needs to make periodical investments in technology, so as to improve their web-sites and online services, which would translate into less reliance on the OTAs. (Starkov, 2011; Starkov and De George, 2012). Customers can be incentivised to opt for the direct channel if provided with reasonable enough guarantee and cancelation policies (Lee et al., 2013), as well as flexible conditions, such as free upgrades or other stimuli, such as airport transport, free breakfast, or discounts on the usage of the hotel’s various dedicated facilities.

These incentive programs must remain rather visible in the web-site so as the customers remember the benefits of direct reservation. Likewise, the whole reservation process should be easy and agile; if the customer regards it as complicated, it will instead use the services of an intermediary. Promotions should only be available in OTA as a last option and perform simultaneously also on the hotel’s website supported by marketing campaigns (SEM, e-mail, mobile and social media web). One should not forget that spending on digital marketing is not an expense but an investment with a high return immediately.

**Present time**

The success of the channel’s individual members directly relies on its success as a conglomerate. Kotler et al. (2004) claim that, in order to achieve said degree of success, companies operating through a specific channel ought to work in synchrony, coordinating their targets and activities. This sort of cooperation will further their understanding of the market they intend to penetrate, which will result in a betterment of the services offered. The relationship between the hotel sector and the OTAs is swiftly transforming, according to a study carried out by O’Connor, SiteMinder and Revinate during the World Travel Market 2015. Among the hotel industry’s leaders, a previously conflictive interaction with the OTAs has gradually evolved into a mutually beneficial association, in which the latter are recognized as valuable members that contribute to the financial success of the former (O’Connor, 2016). This view is also shared by other authors, such as Ling et al. (2016), who claim that hotel-OTA cooperation is directly linked to the assessment of room availability.

It stands true, regardless, that it takes money to make money, as Mourier (2012) claim, and that, in spite of high commissions, unsold rooms result in low revenue.
It is thus advisable for hoteliers’ to carefully select their OTAs’ associates and online distribution means (such as search engines and comparing-tools) in order to identify those channels that generate the most sales at the best prices. A multi-online channel strategy will effectively prevent excessive dependency on a single or limited number of OTAs (Lee et al., 2013; O’Connor, 2016; Zhang et al, 2015).

Finally, it is necessary for the hotel sector to keep on developing its technology in the face of the ever-growing pressure exerted by the Online Travel Agencies. Differentiation is possible if customer’s awareness increases and is consequently taken into consideration for future commercialization and operational purposes. O’Connor (2016) states that it is not possible to reach long-term success through means of obsolete solutions.

Methodology

The current paper used a quantitative methodology, aimed at analysing and evaluating distributive strategies and actions that hotel chains carry out through the mediation of the OTAs.

As a starting point, an online poll was conducted, which reached out to every Spanish hotel chain. Said poll was available for the period between December the 17th, 2013 and July the 14th, 2015.

The link that redirected to the poll, and related data (such as the aim of the investigation, a confidentiality clause, etc.) was distributed by e-mail to every hotel chain that fell within the scope of the research. Further actions were carried out, that were aimed at increasing the reply rate, such as multiple reminders throughout the period the poll was available, or actual phone calls inviting the pertinent departments of distribution, revenue and e-commerce of said hotel chains to participate by explaining the implications of this investigation for the sector.

This research also benefited from the collaboration of the Association of Spanish Hotel Chains (ACHE), which distributed it among its associates.

Data compilation was carried out through a close-structured questionnaire, which included a single open-ended question, aimed at allowing the collection of alternatives other than the OTAs, which might not have been previously contemplated in all of the three fixed-answer questions that preceded it.

In order to design the questionnaire, it was necessary to perform an exhaustive revision of related literature. The identification of the main factors that compose the commercialization strategies implemented by hotel chains was based on previous investigations by multiple authors (O’Connor and Frew, 2004; O’Connor and Piccoli, 2003; Buhalis and Law, 2008; O’Connor, 2008; Tudori and Haynes, 2012; Estis and Lomanno, 2012; Talón et al., 2012; Thakran and Verma, 2013).

From here onwards, various aspects have been identified, in the form of variables and questions, and the potential answers to those questions, which have, in turn, led to the current configuration of the questionnaire.
Once available, a preliminary questionnaire was sent as a test-run to three different marketing and revenue management directives from three different hotel chains: a big national chain with presence in both the national and international spheres, a small national chain, based only in Spain, and finally an international business with presence in Spain.

After collecting the answers, their various proposals were considered, and the pertinent modifications were implemented when needed.

The universe of choice for the current investigation is composed by a total 645,034 hotel rooms. Aforesaid investigation is not circumscribed to specific hotels, but rather to major Spanish hotel chains, who possess far more innovative and professional assessment methods than independent hotels, thus being able to devote more resources to their marketing plans and to the development and acquisition of TICs; this, in turn, equates to higher bargaining power when dealing with online intermediaries.

Considering these facts, it is clear that the decisions taken by these big chains, will determine the subsequent behaviour of the whole sector. It is these characteristics that justify the choice of these big conglomerates, as opposed to other types of hotels.

The population size of the hotel chains of choice is relatively small (a total of 268 elements), which does not reach the minimum of 500 elements. Therefore, the decision was made to use the total universe, by systematically surveying every hotel chain available, as suggested by multiple authors (Hair et al., 2004; Cea d’Ancona, 1996; Mayntz et al., 1969). The sampling frame was built upon the Hosteltur’s 2012 ranking of Spanish hotel chains.

In terms of the number of hotel rooms, the final simple includes up to 264,582, which comprises up to a total of 42.6% of the universe; a rather high answer ratio.

The size of the final sample (n) allowed calculating the margin of error, through means of the referent universes, and for the anticipated level of representation. In order to achieve that, the following formula was used:

\[
n = \frac{\sqrt{\sigma} \cdot N \cdot p \cdot q}{E^2 (N - 1) + \sigma^2 \cdot p \cdot q}
\]

Where \( \sigma = 1.96 \) (for a confidence level of 95%), \( p=q=0.5 \), \( N \) and \( n \) represent population and sample sizes, respectively. \( E \) equates to the margin of error.
The role of OTAs in the distribution process of Spanish Hotel Chains

The role of OTAs in the distribution process of Spanish Hotel Chains

Technical data

<table>
<thead>
<tr>
<th></th>
<th>Description</th>
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<tbody>
<tr>
<td>POPULATION</td>
<td>278 hotel chains (645034 hotel rooms)</td>
</tr>
<tr>
<td>SAMPLE</td>
<td>43 hotel chains (274582 hotel rooms)</td>
</tr>
<tr>
<td>CONFIDENCE LEVEL</td>
<td>Confidence level of 95% (two sigmas) and for the least favourable scenario (p = q = 50%)</td>
</tr>
<tr>
<td>MARGIN OF ERROR</td>
<td>± 0.137 for the sample set, under the assumption of simple random sampling.</td>
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<tr>
<td>SAMPLING</td>
<td>Censal sampling</td>
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<tr>
<td>FIELD WORK</td>
<td>December 2013 – July 2014</td>
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<tr>
<td>TYPE OF SURVEY</td>
<td>Online survey</td>
</tr>
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Results

The following analysis refers to data extracted during the year 2013. However, based on dedicated studies, such as the ones carried out by Deloitte (2015) and Travelclick (2015), it is safe to assert that the distribution panorama has not undergone any significant change. Online distribution keeps growing, and while some businesses are mainly focused in developing their own direct channels, others rely heavily on OTA-based distribution.

The results attained (see Figure 1) show that the majority of Spanish hotel chains tend to favour intermediated sales (64.45%), as opposed to direct sales (32.29%). This conclusion is further supported by the IDISO (2012), which has acknowledged “the current ecosystem for hotel distribution continues to lie, for the most part, in the hands of third parties”. Likewise, offline sales surpass their online counterpart, encompassing 53.38% and 38.37% of the total, respectively. As stated before, within the online realm, intermediaries remain the channel of choice.

The so-called “Expectations 2014” report, confectioned by Deloitte, reinforces the notion that more than 60% of the sales are carried out through intermediaries, mostly online. The low rates of reservation through direct channels can be explained by the fact that the vast majority of the Spanish hotel chains are relatively small (less than 16 hotels), with rather few resources oriented towards online marketing (web positioning, web design, etc), which entails that said chains will be forced to resort to third parties in order to gain visibility.

These results drastically differ from those gathered for the North American distribution processes by Travelclick (NADR; First semester of 2013), which categorize the various hotel reservations by channel for the so-called transient segment (related to individual leisure and business) within the North American market. Results show that up to a 68% of the sales are performed through direct channels, while just a 32% of the total reservations take place through third-party channels.
Figure 1. Utilized channels, distributed per length and purchase/sale technology

The OTAs are the hotel chains’ preferred intermediary, as a 26.82% of the sample operated through these intermediaries. Wholesaler agencies or tour Operators constitute the second major force, seizing up to 20.94% of the total sample. The rest of the channels remain at a large distance from the former, in terms of size (see Figure 2). The results attained are rather similar to those collected by the study carried out by the Ecole Hoteliere de Lausanne and the company RateTiger, on hotel distribution in Europe (Tudori and Haynes, 2012). The OTAs constitute the prime contender, comprising a 35% of every reservation. Hotel chains’ web-sites and other means of direct sales follow suit, and so do the GDS, CRS and voice channels. Within the European territory, there are countries such as France and the United Kingdom, in which hotels rely heavily on the OTAs, which encompass more than 40% of the reservations. In Canalis (2013) O’Connor indicates that, while, as of 2012, the overall revenue by online agencies grew up to a 13%, direct reservation channels saw their revenues cut down to a mere 8%. Presumably, it was the context of the economic crisis which bolstered this transition towards OTA-based models of distribution, in order to make up for their losses. Thus, the amount of power garnered by the OTAs in terms of web-positioning has subsequently dampened the ability of small hotel chains to engage in direct online sales.

Data provided by Travelclick (NADR; First Trimestre of 2013) points towards the American market having a more balanced distribution mix than its European counterpart. This way, direct websites remain the most used channels (encompassing a total 26.3% of the market), closely followed by direct sales (25.4%), GDS (19.7%), call centers (16.3%) and, finally, by a rather great margin, the OTAs (12.4%).
The role of OTAs in the distribution process of Spanish Hotel Chains

Cost remains one of the most common variables when it comes to assessing a distribution channel. O’Connor (2008) considers the measurement of profitability as an extremely complicated task since each channel presents different inherent costs (both direct, such as commissions or charges, and intermediaries). As it can be seen in Figure 3, higher distribution costs are intrinsically related to intermediated channels, the most prominent being intermediaries, whose commissions comprise between a 10 – 20% of the total reservation costs (3,69). On the other hand, the lowest distribution costs correspond to direct channels, (2,05), which barely amount to a 10%.

Figure 3. Average percentage comprised by the distribution costs, and revenue per reservation depending on the channel’s typology

Source: Self.

<0=1; 0-10%=2; 10-20%=3; 20-30%=4; 30-40%=5; 40-50%=6
Source: Self.
With regard to the percentage taken up by distribution costs from the individual reservation turnover, it can be observed that the OTAs hold the third position, with a 3.44 (between 10% and 20% of the revenue per reservation). Flash sales and wholesales agencies occupy the first positions (see Figure 4). According to Deloitte (2014), 53% of the executive board of hotel chains pay between 15% to 25% in costs of the intermediated sales alone, while 28% of them pay between a 10% - 15%.

Figure 4. Average percentage of distribution costs against revenue per reservation in indirect channels, depending on type of intermediary

The most frequently used OTAs business model is the so-called retail model, used by an average 57.93% OTAs, followed by the merchant model, within 45.96%, and finally, the opaque model, used by a mere 10.25% (see Figure 5). This data is rather similar to that of the study carried out by Nuere in 2009, which concluded that the most widespread model was the retail one (78.26%), followed by the merchant model, albeit from a great distance (38.65%).

This data solidifies the evidence that the retail model’s grip on the hotel industry is gradually diminishing in favour of the merchant one. The American market chains also prefer aforesaid merchant model, according to data provided by TravelClick (2012), which indicates that this model encompasses 19.5% of the total online reservations. The opaque model comes in a relative faraway second, with 11% over the total. Lastly comes the retail model, with a mere 3.7%.

Although results seem to point that the Spanish market is beginning to transition towards the North-American model, in which the merchant model prevails, it is not possible to foresee if this trend will continue. The two main causes are:

The prevalent use of the retail model by the leading European and Spanish OTAs, such as Booking.com, and the online consumption behaviour of the Spanish tourists,
who would rather pay at the hotel directly, as allowed by the retail model, rather than paying for the room online. Regarding the second cause, the data collected by the ONTSI (2012) reveals that payment security remains one of the biggest hindrances for online transactions in Spain.

Concerning the businesses that are used the most as intermediaries by hotel chains, it is striking to realize that in an environment dominated by national OTAs, national hotel chains tend to resort to international OTAs since their target market is broader than the national one (see Figure 6). It is worth noting that the world’s two major OTAs, Booking.com (a Priceline subsidiary) and Expedia are being utilized by a 51.77% and a 26.26% of the sampled hotel chains, respectively. While national OTAs lag behind in terms of overall size, the Spanish intermediary Atrapalo ranks the 4th in terms of total turnover, based on the sample’s data (Hosteltur, 2013).

This may be due to the fact that the best-selling OTA in the Spanish market, e-dreams, is oriented towards the aerial market, and the second biggest OTA, Rumbo, was recently acquired by the Swedish group Bravofly, back in 2012.

Recently released data on the Spanish market (Preferente, 2016), further supports the survey’s findings in that, in accordance to a report elaborated by Phocuswright, the company Booking.com remains leader in the OTAs’ business with an estimated market share of 52%, which accounts for more than that of the major Spanish online agencies (Logitravel, Atrápalo, Viajes El Corte Inglés, Travelgenio and Destinia) combined.
Conclusions

The OTAs have changed the rules in hotel distribution, through their reliance on the merchant model for managerial purposes. The great positioning the OTAs have amassed during the past few years has caused direct online reservations to plummet. However, it is in the hands of the hoteliers to decrease their dependence and increase direct online reservations, by implementing the following strategies:

i) The development of a new retribution model, based on a payment-on-performance compensation system, or on a ranked commission system, coupled with the creation of defined regulations and boundaries on third-party distribution, as well as the monitorization of any attempt by the OTAs to sell at lower rates than the hotels themselves.

ii) The creation of associations in order to develop joint inventories for the OTAs to access, which, in turn, will increase the hotel sector’s collective bargaining power.

iii) To Invest in technology, in order to improve their existing web-sites, by featuring services such as reasonable warranty and cancellation policies, flexible conditions and incentive programs.

iv) To build meaningful, long-term relationships with customers, as the development of aforesaid relationships increases brand loyalty, and allows the
hoteliers to better collect data that may prove useful in order to define customer profiles, and so as to craft personalized products and experiences.

v) To follow a multichannel online strategy, by performing a meticulous selection of OTA associates, so as to avoid excessive dependence.

Hotel chains suffer a major problem of dependence of the intermediary, as these third-party channels are often used more than direct ones, both in the online and offline environments. The OTAs constitute the prime example, as they are the most sought after indirect channels.

In spite of their international presence, online channels still remain second to their offline counterparts in terms of volume of reservations. Just a 28% of the hotel sector resorts to online channels as their primary distribution systems.

As shown by the results gathered by the present investigation, OTA-based media tion presents excessive costs for hotel chains, ranging from 10% to 20% of the total revenue per allocated room. From our perspective, it is necessary for the sector to apply corrective measures, and to keep working so as to remediate this situation.

The OTAs that currently cooperate with Spanish hotel chains usually offer a retail model, following the prevailing trend in the European online market. Likewise, Spanish hoteliers have opted for working along international OTAs, as opposed to national ones, as the former possesses a further-reaching target market.

This said, it is necessary to acknowledge the fact that there are several limitations to the current investigation, which should be considered when analysing the results and conclusions offered.

An important limitation of this study came in the form of the hotel sector’s reticence to participate in the field study, as well as its opacity when disclosing certain data.

The task of identification of the key figure in charge of the process of distribution (in other words, the best suited to answer the questionnaire) within the hotel chain, proved to be a complicated one, as different hotel chains assign said task to different positions, such as ecommerce, revenue manager, marketing director, or even hotel manager.

Lastly, it is probable that the current economic crisis has influenced the hotel chains’ distribution strategies, leading them to abuse the intermediation processes.

Future studies may be able to verify if distribution strategies evolve through a more direct approach, to the detriment of intermediated channels.

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