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Module: 33, Hospitality Distribution Channel

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Tourism &
Hospitality

Front Office Operations & Management

Hospitality Distribution Channel

ITEMS	DESCRIPTION OF MODULE
Subject Name	Tourism & Hospitality
Paper Name	Front Office Operations and Management
Module Title	Hospitality Distribution Channel
Module Id	Module no-33
Pre- Requisites	Basic knowledge about Reservations & Distribution Channel
Objectives	To understand the meaning concept of distribution channels, various distribution channels & systems.
Keywords	Distribution Channels, GDS, CRS, OTAs, Hotel Website, Property Direct

QUADRANT -1

Sr. No.	Hospitality Distribution Channel
1	Learning Objectives
2	Introduction
3	Distribution Channels
4	Hospitality Distribution Channels
5	Types of Distribution Channels
6	Central Reservation Systems
7	Global Distribution System
8	Online Travel Agents
9	Hotel's Website
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LEARNING OBJECTIVES

After completing this module students will be able to:

- ➤ **Understand the concept of distribution channels**

- ➤ **Learn various types of distribution channels**

- ➤ **Understand the working of each distribution channel**

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HOSPITALITY DISTRIBUTION CHANNELS

INTRODUCTION

Achieving higher occupancy and revenue level requires considerable research, planning and monitoring. The person assigned to these tasks is usually reservation manager or supervisor. In some cases, the Front Office Manager, Revenue Manager or even the General Manager may have these responsibilities. Although selling rooms is a very important role for the reservations department, deciding what rooms should be sold and the price to sell them is just as important. Without proper planning and control, rooms may be vacant that could be otherwise sold. In addition, rooms may be improperly priced, leading to lost revenue opportunities. The sale of rooms in the modern world is achieved through the various distribution channels available either online or offline.

DISTRIBUTION CHANNELS

Advancements in technology have changed – to the core – the way reservations are made. In earlier times, a hotel would post available rooms and then manually adjust and sell them on a daily basis (even hourly). Today, rooms are sold electronically through numerous channels with little or no human involvement. This substantial change in methodology is due to the growth of hospitality distribution channels.

A distribution channel, in general terms, is a chain of businesses or intermediaries through which goods and services pass until they reach the end user / consumer. The primary function of any distribution channel is to move the customer towards a product or service. It mostly includes wholesalers, retailers, distributors and even the internet. Channels are divided into direct and indirect

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forms. "Direct" channel allows the consumer to buy goods from manufacturers whereas an "indirect" channel enables the consumer to buy goods from wholesalers or retailers.

Hospitality Distribution Channels are different methods or platforms through which hotel room bookings are made. Channel could be a hotel's website, a direct reservation call or any particular intermediator, like third party websites, OTAs (Online Travel Agents), etc. Hotel chains have realised that distribution of their products is imperative for their success. The more number of distribution channels they have, the better probabilities are that their guests will book their rooms. Diverse channels is also vital in order to maximize the potential sales. Through diversification, hotels can reach larger demographics / clients. Having more number of channels can be beneficial in low occupancy periods. However, the key is to have a right mix of channels and manage them effectively.

TYPES OF DISTRIBUTION CHANNELS

There are numerous distribution channels available to hotels today, with new types being introduced every year. Today, travellers can make reservations by telephoning the property directly or telephoning the chain's central reservation office, through email, via the hotel's website, with a travel agent or on the chain's website. Various types of distribution channels are classified as under:

Figure-1. Distribution Channels (Source: HVS 2015)

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Central Reservation Systems (CRS)

CRS is an information system promoting sales and providing fast and accurate information on the room availability, price rates and bookings of hospitality products and services. A CRS is adopted by a chain or group of hotels to better manage the sale of their rooms. Majority of the lodging properties are associated to one or more central reservation systems. There are two types of central reservation systems: *affiliate* and *non-affiliate networks.*

- An **affiliate CRS** is a chain hotel's reservation network in which all the participating member properties are related through a mutual contract. Now-a-days, most chain hotels operate their own CRS reservation network or outsource their reservation operation to a reservation technology supplier. OCC (Oberoi Contact Centre), WELCOMNET, MARSHA are some of the examples of affiliate reservation networks.
- Chain hotels have their reservations operations linked together across all members to streamline the reservation processing. This reduces the overall processing time and system costs. Another benefit is that one chain can attract and refer business for another member/chain property.
- Reservations travel from one chain hotel to another chain hotel through an automated reservation network. If one hotel property is sold out, the reservation system handling the transaction can provide alternate accommodation at a chain property in similar or same geographic area. These are termed as "referrals" which can also be made to properties whose location, price, etc. is suitable to the guest.
- Affiliate CRS networks that enable the non-chain properties to participate in their reservation network have better representation in the market.
- Non-chain / Independent properties may also get themselves associated with affiliate CRS by paying a fee to the reservation network. Such properties are known as *overflow facilities*. Generally, reservations are routed to the overflow facilities only after all the rooms in chain properties (within a specific location / area) have been sold out.

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- A **non-affiliate reservation network** is a network of different hotels among each other. It connects non-chain or independent properties. It allows the independent hotels to avail the benefits of an affiliate CRS. Mostly, these non-affiliate networks accept a limited number of hotels in a particular geographical area. This is done to maintain high value of services among all the participating members.

- Examples are Leading Hotels of the World (LHW), Preferred Hotels, Small Luxury Hotels (SLH) and Distinguished Hotels.

- All properties featured in the CRS database are assessable by a search criterion- this means that a hotel reservationist can offer personalized service based on the requirements of a prospective guest. Only the hotels that fit the search criteria opted and displaying availability on the requested dates are displayed on the screen. This enables the reservationist to suggest a hotel that suits the dates and other requirements of clients.

- Guest history data can be saved for each staying guest and for each hotel in the CRS. Previous stay information in the guest history can be updated at the time of the last departure. When there is a repeat returning to the same hotel, this data guides the reservationist to offer the appropriate room or even upsell rooms (if applicable).

CRS Operations

- A Central Reservations Office (CRO) generally communicates directly with the customers by means of a toll-free telephone number or an online web address. Most large hotel chains have multiple reservation centers established. Calls are directed to one of the centers. These reservation centers are in operation throughout the day for most days of the year (24x7).

- The CROs (Central Reservation Offices) are linked with the member properties for real time management. They primarily work on WAN (Wide Area Network) and exchange room occupancy status among the member properties and communicate reservation transactions as and when they occur. Through an online communications connection, accurate, reliable and up-to-date information on room availability and rates is maintained between hotels and the CRO.

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Some CRSs transfer telephone calls or website contacts directly to destination properties once a reservation record has been created.

- It is essential for the participating properties to be equipped with the necessary communication systems necessary for handling reservation transactions. These include personal computers, computer network, telephone line, facsimile machine, TDD (Telecommunication Device for the Deaf) and so on. The equipment may be provided by the central reservation system at an additional cost.

- The CRS generally levies a charge for each successful reservation transaction processed through their system. Alternatively, a flat percentage of room revenue may be charged by the CRS to cover all CRS operational costs.

- Each participating property has to provide precise, current room availability data to the central reservations office. Without this data, the CRO cannot function effectively to process reservation requests.

Global Distribution System (GDS)

GDS is a worldwide computerized network of reservation, used as a single point of access for booking hospitality services. These include airline seats, hotel rooms, rental cars, and other travel related services. GDS communicates and distributes hotel reservation information and enables selling of hotel rooms / reservations throughout the world. It is basically a large network and a reservation tool that permits hotel inventory and rates to travel agents and allows them to make & manage bookings.

Global Distribution Systems, used by numerous travel segments, serves a large number of varied companies (including airlines, ground handlers, hotels, railways, car rental companies, airports, cruise lines and ferry operators). A GDS links services, rates and bookings; combining products and services across all travel sectors: i.e., airline reservations, hotel reservations, car rentals, and other activities.

GDS is different from a computer reservations system (CRS). CRS is used by the respective vendors (hotels or hotel chains; airlines). Primary customers of GDS are travel agents (both online and office based) to make reservation on various reservations systems run by the vendors. GDS does not hold any inventory. The inventory is held on vendors' reservation system itself. Although, there exists a real-time link between the GDS system and the vendors' database. For instance, when a travel agent or agency wants to reserve rooms at a particular hotel, the GDS system will route the reservation request to that specific hotel property's computer reservation system. Hence, this allows a travel agent/agency connected to a single GDS to choose and reserve flights, hotels, services and activities from all the sellers/vendors in the world who are associated with that GDS. Generally, the GDS terminals are with travel agents, linked through a dial-up connection or a leased line.

BRIEF HISTORY

The airline industry is credited for the creation of GDS in the 1960s. It was created to keep track of flight schedules, availability, and prices. The GDS was among the first e-commerce companies in the world facilitating Business-to-Business electronic commerce in the mid-1970s. Prior to this, travel agencies spent huge amount of time manually entering reservations. The airlines understood that by automating the reservation process for travel agencies and agents, the productivity can be improved. The GDS revolutionized the entire reservation system and gave a new dimension to the travel industry for times to come.

GDS Operations

Most central reservation systems, whether affiliate or non-affiliate network, are connected with one or another global distribution system. The largest and most renowned GDSs are SABRE, Amadeus, Galileo International and WorldSpan. Each GDS is owned by an airline or group of airlines. The following points highlight how the selling of rooms is accomplished through a GDS:

▪ GDSs connect to a hotels' reservation network (CRS) through a transitional system called a "*switch*", such as THISCO. CRSs further connect with a hotel's in-house Property

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Management System (like OPERA, IDS, etc.) to communicate the booking information to the front desk personnel.

- Hotel property's elaborative information is loaded into GDS networks (includes room rates and inventory).
- Numerous online travel portals retrieve the hotel property information from the GDS networks and display it in their search results.
- Travel agents mainly log onto one of the four GDS systems (Amadeus, SABRE, Galileo WorldSpan and International) to retrieve the hotel property information.
- Also, the recently developed online travel agents/portals (OTAs) also retrieve the property information from any of these systems (e.g. expedia.com, Travelocity.com; retrieve hotel information from any of the GDS providers.)

Systems of Global Distribution System

There are currently four major GDS systems:

- Amadeus
- SABRE
- Galileo
- Worldspan

Amadeus

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Amadeus was founded in 1987 by a group of airline (Air France, Iberia, Lufthansa, and SAS). Amadeus is the newest of the four GDS providers included in this module. Amadeus serves the marketing, sales, and distribution requirements of the travel and tourism industry throughout the world. It has a comprehensive data database, among the largest in Europe, and serves more than 57,000 travel agencies and more than 10,500 airline sales offices around the worldwide. Their network provides access to approximately 58,000 hotels and 50 car rental companies serving approximately 24,000 locations. Amadeus also covers ferries, railways, cruise liners, insurances, and tour operators.

Galileo International

Galileo International was founded in 1993 by eleven major North American and European airlines. These airlines included Air Canada, Alitalia, Austrian Airlines, Aer Lingus, British Airways, KLM Royal Dutch Airlines, Olympic Airlines, Swissair, TAP Air Portugal, United Airlines, and US Airways. It is a major player in the GDS business around the world. Galileo International has a diversified portfolio but its core business includes electronic global distribution services for the travel industry through its computerized reservation systems, leading-edge products and innovative Internet-based solutions.

Currently, Galileo International has operations in 116 countries, and serves travel agencies at approximately 45,000 locations. Its portfolio also includes approximately 500 airlines, over 200 hotels, 3 plus car rental companies, and more than 350 tour operators.

Worldspan

Worldspan was founded in February, 1990. It was originally owned by Delta Air Lines, Northwest Airlines and Trans World Airlines. However, currently its ownership lies between Delta Air Lines (40%), Northwest Airlines (34%), and American Airlines (26%). Worldspan provides worldwide electronic distribution of travel information for travel agencies, travel service providers, and different organizations. It currently serves more than 20,000 travel agencies in about 90 countries. Worldspan

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currently links nearly 421 airlines, 210 hotels, car-rental companies, tour operators, and special travel service suppliers. *Both Galileo and Worldspan are owned by Travelport.*

SABRE

SABRE is an acronym for Semi-Automated Business Research Environment. SABRE has developed and transformed the business of travel. SABRE is represented in 45 countries, enables travel commerce and services and enhances airline/supplier operations.

Headquartered in Southlake, Texas, SABRE connects more than 60,000 travel agency locations around the world, providing content from approximately 400 airlines, 55,000 hotel properties, 52 car rental companies, 9 cruise lines, 33 railroads, and 229 tour operators. In addition to being one of the leading GDS companies, Sabre also provides a broad range of products and services that enhance travel agency operations and their ability to serve the traveller.

SABRE owns Travelocity.com which is the industry's leading online consumer travel web site that helps consumers find the best flight, hotel, car and holiday reservations.

Online Travel Agents (OTAs)

These are platforms allowing customers to search hotels, compare their room rates and make bookings through their websites (with the hotel property that best suits their requirement). These are third party websites that have set up contracts with different hotels properties, securing their inventory/rooms. OTA revenues come from commission charges which are levied for every materialized reservation routed through their channel. They are one stop solution for all hotel bookings for the end customer. Example of OTAs: Expedia, Booking.com, makemytrip.com, and so on.

OTAs generally charge 10-20 per cent commission rates, however, commission rates may vary depending upon the contract, selling power of the hotel, impact factor of the OTA and so on. OTAs spend a considerable proportion of their revenues on "metasearch websites" to bid for the hotels that pay them the commission.

OTA Models

There exists two models of OTAs:

   ➢ The Merchant Model

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- The merchant model is also known as the "net contracted rates" model.
- In this model, there exists a contract between hotel and OTA to sell base number of rooms.
- Usual margin for OTAs is generally 20-30 percent due to bulk purchase.
- In return, the OTAs provide hotels with more visibility on their portals that result in more incremental bookings and revenue.
- Example: Agoda, Expedia

- The Agent Model
  - This is a commission-based model. Hence, the hotel owners decide the final selling price of their rooms.
  - A mutually agreed, fixed commission is decided for every booking (on per room and per night basis) to the OTA.
  - It provides the customer with the choice of either paying upfront at the time of booking or at the time of check-out at the hotel.
  - Commission payable by the hotel depends upon their market share and visibility/exposure promised by the OTA.
  - This model allows the hotel to better manage their inventory. It permits them to flexibly allocate their rooms to OTAs and adjust during unexpected market changes.
 - Example: Booking.com

Figure 4. Market Share & Performance Index of various OTAs in India
(Source: Millward Brown Survey, 2016).

Figure 5. Figure 5. Market Share of Websites.
(Source: https://www.linkedin.com/pulse/hotel-booking-industry-working-surviving-nishant-gupta)

Hotel's Website

A hotel's individually developed and maintained website is one of the best ways to secure an Internet room sale. The reason is financial. When an Internet user buys a room directly from a hotel (as is also the case with a walk-in, telephone, e-mail, or fax), the fees paid by the hotel on that sale are either eliminated or reduced. Most brand or franchise hotels rely on the web sites designed and operated by their chain's CRS for their internet presence. They lower the hotel's dependence on third parties to increase bookings. The hotel's site should encourage visitors to book rooms in a quick, easy and logical manner.
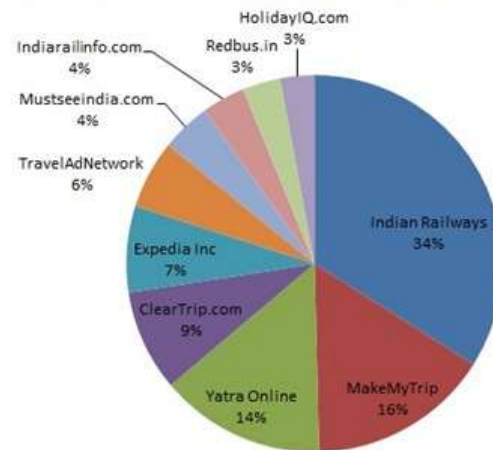
From the viewpoint of distribution channel, hoteliers should carefully consider the following factors when developing property websites:

- *Written Website Content*: A site's written content should answer questions that site visitors are likely to have about the hotel (e.g., What? Where? How much?) and encourage visitors to book rooms. Property brochures, sales letters, promotional kits and other marketing tools should be available on the website.

- *Search Engine Optimization (SEO):* The number of views or the visibility of the hotel's website on the search engine depends on investment made by the hotel towards SEO. Search engines have rules about the number of times a term can be used, how terms should be used and where

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terms should appear in site documents. A search engine specialist can help the Front Office Manager to maximize the chance of having a strong sell position in search results.

- *Audio - Visual Content:* As more and more people get access to high speed internet, hoteliers should increase the audio-visual content on their website. This includes, high definition photographs, graphics, logos and all forms of audio and video. Recently, many hotels have added virtual tours to their

METASEARCH PLATFORMS
Metasearch platforms (e.g. Trivago and Tripadvisor): These online platforms compare hotel prices offered by different OTAs. Metasearch websites earn revenues by selling advertisements on their search page like search engines. However, instead of charging commissions, they levy a fee per click as well as for standard advertising. Two of the largest metasearch providers, Trivago and Kayak, are owned by Expedia and Priceline / Booking.com respectively. Recently, certain metasearch players have moved into the booking space themselves – either through contracting directly with the hotels or with third party sellers.

websites.

- *Reservation Availability:* Websites should display real-time reservation availability as potential guests immediately want to know if their requested room is available or not. A reservation device can be used for this purpose which should be accessible from anywhere on the website.
- *Applicable Links:* Linking website to potential business sources is a key strategy. Websites need to be connected to with demand generators like local attractions, tourist information portals, chamber of commerce, etc. the hotel website developer should contact these demand generators and ask for a reciprocal link.

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Property Direct

Reservations directly received and managed by the hotel through telephone, e-mail, fax, walk-ins and even group sales department. These channels can be considered one of the most preferred distribution channels as it does not involve any intermediaries between the hotel and its guests.

➢ **Telephones**: Hotels still receive many reservations by telephones. Telephonic reservations a hotel receives are free from fees, except for direct labour costs and franchise fees (if applicable) based on total room revenue. It is one of the most cost-effective ways to obtain a room sale. A hotel may or may not have a dedicated reservation agent attending telephone calls regarding reservation queries. The efficiency in handling reservation calls determine a hotel's booking success. The art of selling rooms by telephone is highly developed skill. The Front Office managers improve the effectiveness of their staff by improving the following aspects:

   ▪ Displaying appropriate telephonic etiquettes
   ▪ *"Qualifying"* the guest
   ▪ How to describing the property?
   ▪ How to offer & present the rate
   ▪ How to overcome price resistance
   ▪ Upselling
   ▪ How to effectively closing the sale (i.e., making the reservation)
   ▪ Reconfirming the sale details
   ▪

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> *Qualifying: Process of asking questions of guests to obtain answers that will better help the hotel salesperson meet the guest's reservation needs. For example, a front desk agent might ask," Would you prefer a smoking or a non-smoking room?"*

- ➢ **Email**: Email and traditional mail distribution channel can be considered together due to their similarities. These are again very cost-effective means of selling rooms. The email user generally sends its reservation query (room type availability, dates, rates, etc.) to the hotel and expects a same day reply or at the very latest, the next day. The following specific measures can be taken to help maximize the effectiveness of emails:
  - ▪ Reply to all email inquiries as quickly as possible, within 24 hours (sooner, if possible).
  - ▪ Always use hotel's name in the "from" line when responding to a message.
  - ▪ Use automated spell check software on each mail reply before it is sent.
  - ▪ "Sign" all mail clearly; include typed name, position, address, and direct contract information (telephone or e-mail) of the person replying to the reservation inquiry.

- ➢ **Walk-in Guests**: Walk-in guests are considered a valuable revenue generator with no recruitment costs. Hotel pays no fees for a walk-in guest whereas as least three reservation related fees (GDS, CRS, OTAs) in other cases. These fees may vary from five percent to thirty percent of the quoted room price. If rooms are available, every possible effort should be made to sell a room to each walk--in guest. Steps for handling a walk-in guest include:
  - ▪ An immediate warm welcome and a friendly approach
  - ▪ The lobby should be clean and attractive
  - ▪ Special discounts for last minute travellers
  - ▪ Room upgrades can be offered, from standard to higher level room types, to increase perceived value and ensure the room's sale.
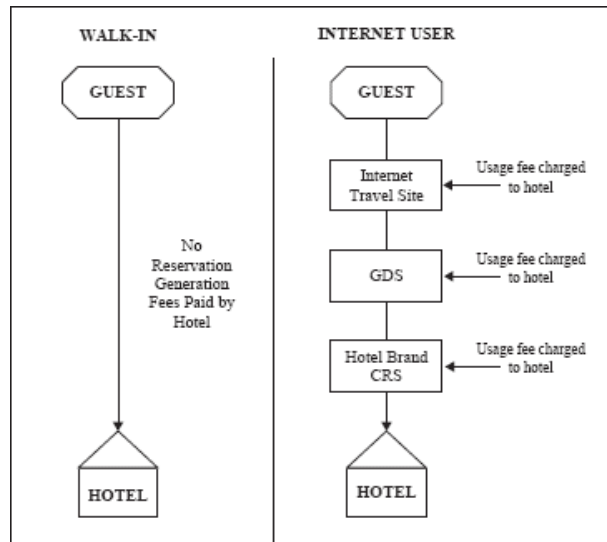
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Figure 6. Walk-in Guest vs Guest who used ... channels (Source: Woods et al, 2008)

Summary: Hospitality Distribution Channels (HDC) are the different methods or platforms buy which room bookings for a hotel are made. It is essential for the reservation team to critically choose and manage various channels of distribution. This module covers major HDC prevailing in the current times. There are five broad Distribution Channels namely; Central Reservation System (CRS), Global Distribution System (GDS), Online Travel Agents (OTAs), Hotel's Website (brand.com) and Property Direct. A large number of distribution channels give more opportunities to guests to inquire and book hotel rooms. CRS includes affiliate and non-affiliate reservation networks. Four main GDS system-Amadeus, Galileo, SABRE and Worlspan. The OTAs have grown tremendously in the last decade and most OTAs are owned by two major players-Expedia and Priceline. Hotel websites uses internet as a means of distribution to cater to the online visitors. To conver the visitors into guests, the website must be attractive and user-friendly. Property Direct reservations are most cost-effective and include telephone, email, and walk-in guests.

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