Discussion paper

Disintermediation of travel agents in the hotel industry

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Abstract

The trend of massive disintermediation is threatening the livelihood of travel agents. This paper investigates the disintermediation of travel agents in the hospitality industry when hotels take distribution back into their own hands by setting up websites that allow guests to make bookings online. We analyze the factors affecting an agent's possible responses to a hotel's destructive acts, and put forward suggestions to agents to fight against the trend of disintermediation. We also point out what hotels can do to improve the quality of their relationship with their agents should they decide to launch their online channel.
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1. Introduction

Demand for travel related services and products has dropped drastically since the terrorist attack in the US on September 11, the subsequent military action against Iraq, and the recent outbreak of SARS (severe acute respiratory syndromes) in different parts of the world. Hotels are particularly hard hit by these catastrophes. For example, in Hong Kong, occupancy of many hotels has dropped to below 20% (Neuman et al., 2003). To survive under the dual impact of war and disease, many hotels have accelerated their pace to cut commissions paid to travel agents by building web sites that allow guests to book rooms online at a cheaper rate.

Hotels are discovering that the web is not merely an online brochure, but can be a powerful and cheap channel to cut cost and thereby improve their competitive advantage. The hotels' move represents a serious threat to agents—massive

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disintermediation resulting from hotels taking advantage of the Internet to sell hotel rooms directly to travelers. Today, travel agents throughout the entire world are under this threat (Sandoval, 2002). In May 2002, for example, two big chains, Starwood and Six Continents, took the distribution back from commission-based agents by offering customers 10% off the lowest rate that they can find elsewhere on the Internet (The Economist, 2002). All these moves eroded revenue and speeded up the process of disintermediation for travel agencies especially small ones.

It is actually commonplace that in any marketing channel relationship, a member would undertake actions or adopt policies that are perceived as harmful by other members. Hibbard et al. (2001) call these destructive acts. The rapid growth of the Internet has significantly increased the potential for discord between hotels and agents. These conflicts, if not handled properly, can result in channel backlash that could hurt the hotels' efforts to restore profitability, and the conflict may deteriorate into a spiral of hostility and distrust that ultimately could lead to dissolution of a potentially mutual beneficial relationship (Hibbard et al., 2001; Rusbult et al., 1986).

Based on Hibbard et al.'s model and previous literature on channel conflicts, we attempt to look into the issue of hotel channel relationship management by analyzing travel agents' possible responses to hotels' destructive act of selling rooms directly to travelers on the Internet. We first look at the choices available to an agent, and then we look at factors that affect the agent's response to the destructive act. Finally, we put forward suggestions to agents and hotels to improve the quality of their relationship.

2. Agent's possible responses

Based on Hirschman's seminal writings (Hirschman, 1970), as well as the work of Hibbard et al. (2001) and Ping (1993, 1995, 1997), an agent could react to a hotel's destructive acts either negatively or positively. Negative acts are acts of retaliation that may include: the agent terminates or threatens to terminate its working relationship with the hotel; the agent reduce its effort to market the hotel's rooms; or the agent aggressively criticizes the hotel. These negative acts put direct pressure on the hotel to change its behavior by stressing the adverse consequences of the destructive act (Frazier and Rody, 1991). On the other hand, positive acts may include constructively discussing the problem with the hotel to find a win–win solution; or simply passive acceptance by viewing the problem as transitory and that it would work itself out later on (Hibbard et al., 2001).

3. Factors affecting agent's choice of response

Holmes (1981) distinguishes the role of micromotives and macromotives in speculating on agents' responses to acts of destruction. Micromotives are more event-driven feelings or cognitions, while macromotives refer to stable dispositions contingent upon the general qualities of the relationship.

The micromotives are dependent on (1) the agent's perception of damage caused by the hotel's destructive act and (2) the agent's attributions regarding the motivation behind the hotel's destructive act. Both perceived intensity of damage and attributions are important considerations in predicting the agent's response behavior.

Dant and Schul (1992), and Zwick and Chen (1999) have demonstrated that the higher the intensity of the punishment, the stronger is the effect on behavior. Hibbard et al. (2001) find that all other things being equal, as an agent's perception of the intensity of the supplier's destructive acts increases, the agent is less likely to respond with constructive discussion and passive acceptance, and would more likely respond with aggressive behaviors that would harm the relationship. In the case of the relationship between a hotel and its agents, the hotel's initiative to start a new channel to allow bookings at substantial discounts would be perceived by its agents as threatening their survival. Hence, it is natural that the agents would tend to retaliate in an unfriendly manner.

Meanwhile, the behavior of channel members is often shaped by the attributions they make regarding the causes of their partner's actions (Frazier, 1983). Scheer and Stern (1992) point out that an agent may attribute causality of destructive acts to itself, its partner, or some external factors. Thus, when an agent attributes a hotel's destructive act as strictly beneficial to the hotel only, the agent may harbor greater hostility toward the hotel, even at the expense of some financial sacrifice on its part (Zwick and Chen, 1999). On the other hand, when the destructive act elicits self or external attributions such as ''we are responsible for this'' or ''the September 11 event forced the hotel to sell cheap rooms via the Internet'', the agent would be more likely to respond with more constructive actions or support the hotel through passive acceptance. Surprisingly, self and external attributions can be relationship enhancing because the increased communication resulting from these constructive actions would lead to better understanding between the two parties (Hibbard et al., 2001).

Besides micromotives, macromotives, or relationship characteristics, also affect how an agent would respond to a hotel's destructive act. Hibbard et al. (2001) identify two important macromotive factors: (1) the agent's perception of relationship quality with the hotel before the destructive act and (2) the level of interdependence between the agent and the hotel (Buchanan, 1992; Dwyer and Orville, 1981; Hibbard et al., 2001; Iacobucci and Hibbard, 1999). Concerning the first macromotive factor, Anderson and Narus (1990) and Dant and Schul (1992) find that channel members that trust their partners are more likely to find win–win solutions to their problems. Furthermore, dealers with positive views about the relationship place less importance on a single destructive act and would be more likely to believe that the condition is transient and would improve, and would therefore be less likely to respond with aggressive retaliations (Hibbard et al., 2001).

The second macromotive factor to examine is the level of interdependence between channel members. Gundlach and Cadotte (1994) and Lusch and Brown (1996) suggest that if channel members have great stakes in the relationship, and both are dependent on each other for profit, retaliation would not be an attractive option to the parties involved. Instead, they would engage in constructive discussions to

resolve their differences. In fact, Kumar et al. (1995) find that channel members who are heavily dependent on each other may have their relationship quality improved after the destructive act, and performance may even improve as a result. On the contrary, if the power structure is asymmetric or one member depends heavily on the other to realize its objectives, then the less powerful side is unlikely to use responses that may upset the relationship (Kumar et al., 1998). Furthermore, they may perceive that retaliation is ineffective against the powerful partner, because the latter can afford to ignore them (Hibbard et al., 2001). Therefore, weak agents in situations of power asymmetry may have to respond more passively, hoping that conditions would improve (Frazier et al., 1989). In the case of the hotel industry, hotels still find agents useful for distributing their rooms because online booking remains new to a lot of travelers in Hong Kong, even though there are an increasing number of people who are willing to buy goods and services on the Internet. Hence, to a certain extent, both parties are still dependent on each other for profit. This explains why hotels kept on explaining to agents that the destructive act was only a promotional tactic, and that travelers booking on the web belong to a different market segment.

4. Managerial implications for agents

The implication to agents is they need to re-intermediate themselves by providing value-added services that are required by customers. Agents must realize that travelers are pragmatic and are not concerned about any feud between themselves and their hotels. In choosing which channel to book a room, their bottom line is where they can get the same room at a cheaper price. A recent survey found that more than 15% of all leisure travel in America is already booked online (The Economist, 2002), so the threat of disintermediation is imminent and the trend is irreversible (Benjamin and Wigand, 1995; Frazier, 1999).

Peterson et al. (1997) suggest that there are three functions provided by an agent: distribution functions like sorting, inventory holding, and building up assortment that facilitate physical exchanges; transaction functions that facilitate economic exchanges between buyers and sellers; and communication functions that include advertising and promotional activities to inform prospective buyers features of a seller's product. The Internet as a marketing channel for hotels may provide all the three functionalities at a low cost, and has the potential to substitute and dominate the performance of a traditional travel agent.

Hotel rooms are particularly suited to Internet marketing. Although traditional travel agents can add value by providing rooms from various hotels to travelers, booking of a hotel room can be digitized, distributed and sold easily through the Internet. The Internet is in fact an ideal distribution and transaction channel for hotel rooms in electronic forms because the variable cost of room distributing is zero (Peterson et al., 1997).

Peterson et al. (1997) also point out that the suitability of the Internet to consumer depends on whether the good being purchased is a search good or an experience good. According to Nelson (1970), search goods are goods dominated by product

attributes for which full or nearly full information can be acquired prior to purchase. A search good can be objectively evaluated from externally provided information that is readily available, but an experience good needs to be personally tried and inspected. Peterson et al. (1997) suggest that for search goods the Internet could serve significant transaction and communication functions because the buyer does not need to try and inspect the good before placing an order. Nowadays, secured payment mechanisms are available for web transactions, and the web can also present promotion-type pictures and information interactively that far transcend largely verbal descriptions provided by staff in retail channels. Consequently, the role of traditional intermediaries can be easily bypassed for search goods.

Based on the definition of search goods provided by Nelson (1970), we can classify hotel rooms as search goods because it is not expensive to search for information on critical product attributes via word-of-mouth, the hotel itself and the Internet. Travelers can judge if a room is suitable to them based on information provided by the hotel, rating sites and other readily available sources of information online. There is little need for a customer to physically inspect the room before they buy it. More importantly, the entire booking procedure can be digitized so there is no requirement for physical delivery of booking and confirmation information, and promotional messages can be easily created and effectively distributed in a hotel's web site. As a result, the Internet has the potential to replace traditional travel agents. When more and more guests feel comfortable working with the Internet, the time will come when complete elimination of agents will occur.

Travel agents throughout the world are now left with no alternative but to figure out what strategies they could follow to sustain their role as middlemen and justify the commission earned. There are two directions that agents can follow to ensure its survival. The first is to improve their efficiency by repositioning themselves as low-cost agents through the Internet, working like clones of the offline agencies to push a hotel's rooms. For example, both Rosenbluth and American Express sell a range of customizable packages that help clients to make the best use of their shrinking travel budgets. Another alternative is to come up with a totally different business model that adds value to a traveler's traveling experience. Providing travel advice, enhancing customer satisfaction and bundling hotel booking with other related services are just some of the many options travel agents need to consider to fight this trend of disintermediation. To survive, the agents should reintermediate themselves as being able to provide the personal service and support that guests need. They must invest in deep learning about their target customers' preferences to find out what would most satisfy them.

O'Conner and Frew (2002) point out that tourism products are diverse, and are rarely purchased in isolation, and can be combined in a seemingly endless range of permutations and combinations. Hence, travel agents must try their best to identify the preferences of guests in an attempt to minimize the gap between a guest's expectations and the actual travel experience. They must recognize each key customer's individual preferences and make extraordinary efforts to satisfy these preferences. They may need to target difficult to satisfy customers who are willing to

pay more for highly customized services instead of backpackers who prefer cheap rooms booked in a hotel's web site. They need to look into what had to be done and create the organizational capacities to deliver on the commitment to personalized service, the latter include decisions on what services should be offered, what processes are needed, and what staff need to do or learn to make the process work flawlessly. More importantly, there must be a change in the agent's mind-set from merely selling what they have got to helping guests buy what they want.

5. Managerial implications for hotels

Although hotels could unilaterally sell rooms on the Internet at a substantial discount to guests, they should explore the possibility of a win–win arrangement with its agents at least for the time being when online booking is still at its infancy. Instead of driving agents into a corner, hotels should consider systematically categorize agents using several key criteria or variables similar to those employed in Hibbard et al.'s study (2001). These variables include performance, perceptions of relationship quality, dependence, and attributional tendencies. This would enable the hotel to identify agents who would potentially react positively to destructive acts so that hotels could direct destructive acts only to agents who tend to attribute these acts to external competition and hostile business environment factors, or to those who are very dependent on the hotel for profit. These agents would normally react with constructive discussion that might eventually foster the level of trust and communication between the parties.

Second, it is useful for hotels to manage an agent's perceptions about the intensity of the act and attributional interpretations (Hibbard et al., 2001). If a hotel recognizes that an action is destructive to its agent, the hotel should proactively articulate a perceived or actual outside threat to enhance an agent's attributions to external factors. For example, hotels could stress the threat of drastic decrease in travelers to make the agents attribute any commission cut to the September 11 attacks or the recent SARS outbreak. That is, hotels must estimate likely reactions of its agents before a destructive act, and use their predictions to forewarn, justify, or compensate existing agents for potential losses by honestly communicating the message to them as early as possible. To justify a destructive act, a hotel should also share important market data with the agent and explain why the destructive act is necessary (Folger and Skarlicki, 1998; Hibbard et al., 2001).

Finally, Hibbard et al. (2001) suggest that in the case of a supplier adding a new channel, differentiating the products sold through existing channels, even cosmetic differentiations, may make existing channel members less infuriated. For example, hotels wishing to pursue the online channel can position the Internet channel as most suitable for price conscious pleasure seekers who would like to plan everything themselves, whereas for those who do not want to spend the effort to do the planning, they can always seek the service of a travel agent.

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