

Hotel rate parity in the focus: Is there a need for change in the relationship between hotels in Berlin and their wholesale partners?

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Recent developments in revenue management at hotels in Berlin have brought a lot of challenges in upholding rate parity, particularly in the wholesale segment. Little research has been done on this topic, especially with regard to the advantages and disadvantages of partners in such agreements. This study focuses on the control over rate parity and what changes have to be applied to mitigate the danger of termination of business relationships between hotels and their wholesale partners. The research, based on in-depth interviews with hotel and wholesale managers, revealed that there are systematic problems in communication between hotels and wholesalers. Other issues that need to be improved, as revealed by the research, include the excessive control of third parties, the new pricing models and the flexibility of both parties. Establishing real-time connectivity is the key factor recommended. Other recommendations are the implementation of a more flexible approach to hotel policy of 100% dynamic rates, and finding more market-specific solutions such as keeping rates static for certain target groups. The results also demonstrate that controlling the rate parity will not be solved by the wholesalers themselves. A common control system is advocated in which hotels have to take over an important role by using their worldwide network and technological resources.

Keywords: wholesale, revenue management, rate parity, channel control

Introduction

Rate parity, the maintenance of equal prices across all distribution channels, is one of the biggest challenges for a hotel revenue manager who wants to set up such channels. Many large hospitality enterprises worldwide have created controls and implemented policies for their properties in order to guarantee an optimal supply of their products. Major online travel agencies (OTAs) such as Expedia or Priceline are insisting that such measures be in place by creating clauses in their contracts with the hotels. The market of Berlin is a unique one, with rising occupancies and average daily rates (ADR). While having around 140 000 guest beds, the rates of hotels in Berlin are still way below the level of other major tourist cities like Paris, Amsterdam or even New York (Dobberke, 2015). The wholesale segment is often non-prolific in this aspect. Unbundled rooms being released to the market by wholesalers are not the original consideration of the hotel who sold them with high discounts. Actually these rooms are supposed to be bundled with flights, car rentals or other activities plus a fee for the service; if this is not given, the rate parity is in danger. Many hotels in Berlin try to assess the consequences of what losing the wholesale segment would mean for their financial success. One of the perceived consequences is that hotels would lose room nights in low demand seasons but could win in other segments during high demand periods, resulting in higher ADR and revenue per available room (RevPAR).

It is questionable whether the hotel distribution industry is

involved in a deep-rooted shift of powers or just a passing phenomenon of booking, organising and purchasing hotel room nights (Trend, 2011). The wholesale segment will not vanish, but the hotels would like to see a change in business, with for example a dynamic net rate clause in a wholesale contract. Furthermore, in times where hotel revenue managers have to deal with complex distribution networks, hotels have to consider wisely how the distribution mix has to be set up to gain as much success as possible (O'Connor & Frew, 2004). It needs to be investigated what kind of business the hotels should expect in the coming years, and what they have to initiate in order to ensure rate parity throughout all distribution channels, including the wholesale segment.

The question could be asked whether or not rate parity is indeed beneficial for hotels' performance. The main goal of hotels all over the world and their sales teams is to attract their customers towards direct bookings in order to decrease distribution costs. If the hotels fail to convince the customer that direct booking is beneficial, it is a failure of the marketing and distribution strategy. This often gives the wholesale and OTA industry added power, which facilitates the upholding of rate parity (Singh, 2015).

The Revenue Department of the hotel chain investigated has revealed that too much wholesale business lowers the RevPAR significantly, especially in high demand seasons. The ability to select different channels effectively, and how to work with them instead of eliminating the ones that seem unfortunate, is of crucial importance (Brewer, Christodoulidou, & Rothenberger, 2005).

Literature review

Tranter, Stuart-Hill and Parker (2009) defined wholesalers as companies that purchase individual tourism products at a discount and repackage them for the purpose of selling them to a customer on a retail basis. The wholesale partners can choose either to package the rooms with other ancillary products or sell the hotel room directly with a mark-up (Green & Lomanno, 2012). In the last few decades the business model of wholesalers has changed dramatically. Hence, it is worth drawing an extensive overview of this business model and its implications for the hotel industry.

The evolution of wholesale distribution in the contemporary hotel industry

The history of wholesalers began as early as the 19th century, with Thomas Cook organising his first excursions to exotic destinations around the globe (Smith, 2015). Long before the Internet emerged, wholesalers arose with their largely package-based business to exotic destinations all over the world (Green et al., 2012). Likewise, PhoCusWright (2012a) explained that in this period the mechanics of hotel reservations advanced and became more efficient. Global distribution systems (GDS) deriving from the airline industry became the intermediary between the supplying hotels and their affiliated distribution partners like wholesalers. Especially hotels focused on leisure business had no other chance than starting business relationships with wholesalers to sell their room inventories (Berné et al., 2012).

The travel agents have the added advantage in having extensive knowledge of the travel destinations, and having more resources and information than the customer. This changed in the early 1990s, with the appearance of the world-wide web (Trend, 2011). A number of experts anticipated the end of the wholesale business and hotels becoming more powerful again (Strangl et al., 2015). While the distribution market and the possibilities increased, the wholesale industry still relied on their expertise and the hotels used them as an opportunity to transfer distressed inventory (PhoCusWright, 2012a).

At the beginning of the 21st century, the shift of distribution gathered pace. Online travel agents entered the market and the term e-commerce was established (Webb, 2002). The problem of rate parity came to attention. Even though hoteliers who thought using the rack rate was the best way to ensure rate parity among the channels, they could not enforce direct distribution of their own products because of a lack of power (Christodoulidou, Brewer, Feinstein, & Bai, 2007).

Instead of developing their offered products, many wholesalers simply became e-wholesalers with the same static product, in times where dynamic packages, self-bundling by the customer, became more and more popular. This innovation threatened the wholesale industry, which back then was a combination of online and brick and mortar stores (Christodoulidou et al., 2007). Ivanov (2014) even predicted that the wholesalers and tour operators had to change their business models and had to become OTA, otherwise they would vanish. The emergence of OTA marginalised the wholesale industry from a major channel into a niche market, still having its share, especially of frequent independent travellers (FIT) and group business (Green et al., 2012).

This shift has already caused a change of the business model of wholesalers and their relationship with the suppliers. The old model of fixed room allotments at discounted rates with cut-off dates for not picked up rooms is past (Starkov, 2004). Benkendorff, Sheldon and Fesenmaier (2014) note that hotels have started to contract so-called blackout dates. With these, hotels can circumvent the wholesale business and are able to sell higher rates. Without blackout dates on high demand dates, hotels forfeit a lot of profit (Benkendorff et al., 2014). This seems quite straightforward, but it can also result in conflicts if communication is lacking. The wholesale business has therefore been forced to adopt a mix of strategies like last room availability or free sales on top of contracted allotments, which have greatly decreased recently (Tranter et al., 2009).

Overall, the wholesale industry seems to be shifting towards more dynamic packaging as a niche market. Their main competitors like Gulliver's Travel have proved their power against the OTA competition and shown themselves to be very adaptable (Trend, 2011). They have done this not only by offering a certain security to travellers in times of terrorism and economic crisis but also by offering the hotels the possibility of reaching even the furthest markets and additionally getting rid of their distressed inventory during low-demand periods (Trend, 2011). Green et al. (2012) observed that the wholesaler is likely to survive in the electronic age in his own niche market. Nevertheless, the supplying hotels are examining the effectiveness of the wholesale industry, especially the strategic benefits of distinguishing between high and low-demand periods. New competition is on the rise as well, for example with Google flights, which creates another hurdle for wholesalers in the battle of distribution (Volkman, 2015).

Value of the wholesale industry in the online distribution market

Companies offering a broad range of products are able to benefit from a complex distribution system in times of fast changing customer needs and spending patterns (Webb, 2002). Many hotels believe that their occupancy rates benefit from the wholesale business (Myung, Li & Bai, 2009). Indeed, by communicating effectively, both sides can benefit through reduced costs and increased profits (Herrmann, 2014). In addition, Brewer (2005) highlighted that hotel Revenue Managers should focus on careful selection of their distribution channels instead of ignoring or abolishing them.

The wholesale industry serves specific segments, namely the FIT business and leisure group business. These transient travellers, unmanaged individuals, are likely to spend more money in the hotel besides the accommodation, for example on food and beverages (Pearce & Taniguchi, 2008). Myung et al. (2009) even stated that wholesalers bring prior unfeasible revenues and occupancies. Generally, tour operators and wholesalers are operating in the packaged wholesale business; those who supply the FIT travellers seem to be successful nowadays, despite recessions or increasing competition (Trend, 2011).

The wholesale industry offers an astonishing array of sales and marketing services. Their global distribution network with local travel agencies increases the suppliers' market reach extensively (Myung et al., 2009). In addition, aggressive advertisement campaigns guarantee the visibility of the offered hotel products around the globe (Myung et al., 2009). This includes affiliate marketing, with objectives ranging from general promotion to leading the consumer to the company's

direct channels (Mariussen, Daniele & Bowie, 2010). This effect normally costs per click or per lead and is an effect of the wholesalers, without any additional expenditure. Moreover, inbound travellers who are not familiar enough with local cultures and procedures are serviced individually, with planning everything for each personal trip which is valued by customers now and probably also in the future (Green et al., 2012). The link between supplier and end customer with personal service and a broad distribution range is therefore another value of the wholesale industry.

The modern traveller looks for value and safety (Sedlacek, 2015). Hoteliers want to have a broad range of sources to sell their inventory of rooms (Myung et al., 2009). Tranter et al. (2009) show that hotels are eager to get rid of their unsold rooms. In prosperous economic times, hotel rates have the tendency to rise, which benefits all parties involved in the agreement. Instead of focusing only on room rates, the hotels should focus also on other factors that make customers want to come back (Singh, 2015).

Issues of the affiliation between hotels and wholesalers

While the wholesalers consider themselves as partners who help the suppliers fill their distressed inventory and who bring great marketing opportunities for a lot of markets, especially from far away, many hotels see them as competitors who try to control prices and who destroy brand loyalty (Rich, 2002). The key challenges identified here are customer ownership, rate parity and potential profit loss (Christodoulidou et al., 2007; Myung et al., 2009). Webb (2002), on the other hand, claimed that incongruent goals, different perceptions of reality and ineffective communication are the main causes of channel conflict.

Referring to communication challenges, Webb (2002) stated that conflict can be avoided only with good communication between supplier and channel partners. However, this is very complicated for Revenue Managers, due to the complex distribution system that has been brought about by OTA and meta-search sites, which created a way for innumerable distribution partners to be found online. Every channel has its own goals and interests, which may initiate conflict at any given time (Eliashberg & Michie, 1984). Webb (2002) in contrast claimed that conflict can also be helpful, because without conflict both parties would stagnate, there would be a lack of creativity and that conflict is therefore essential for motivation to grow and to discover new opportunities. Myung et al. (2009) showed that communication has a major impact on channel conflict and that hotels should try to build good relationships with their channel partners. Nonetheless, if you give a certain rate to one channel, it automatically creates potential conflicts with other channels (Myung et al., 2009).

Rate parity refers to the maintenance of equal prices on all channels of distribution, and is closely linked to the concept of best rate guarantee (Christodoulidou et al., 2007). Myung et al. (2009) brought to attention that e-wholesalers have been able to sell the allotments without a linked package directly to the customer at net rates. Moreover, Starkov (2004) noted that hotels have failed to restrict the online wholesale segment; the same contracts are made for online wholesale as before, without clauses prohibiting the wholesalers from selling the net rates unbundled. This made prices transparent, on the one hand, but on the other hand caused rate parity issues, with

both sides offering undiscounted rates (Pearce, 2008). Others have claimed that ineffective technology is the origin of the problem, which is not able to reflect in real time accurately (Christodoulidou et al., 2007). Out of that other problems evolve. Hotels lose control over their customers and are not able to guide them to their own low cost distribution channels (Myung et al., 2009). On the other hand, Brewer, Feinstein and Bai (2006) found that hotels that are able to maintain their channels properly can influence their customers not to have to look further than the direct booking channel. Nevertheless, maintaining control among all wholesalers remains the main issue, as it is possible for them to control their many partners, including OTA actually selling the same products but slightly differently described and priced (PhoCusWright, 2012b).

This issue again creates new conflicts, besides rate integrity. Firstly, the hotels sell contracted rooms to the wholesalers at a discounted rate, even if they are able to distribute higher rates elsewhere (Myung et al., 2009). Green et al. (2012) found that some hotels give discounts to get cash flow in an economic crisis and to stabilise their RevPAR through volumes in low-demand periods, but the result is a spiral to the bottom. However, hotels will go on with their fight against external distribution channels for the control of their prices and inventory (Carvell & Quan, 2008).

The second issue deriving from rate conflicts is even more important: the potential loss of customer loyalty. OTA and other channels provide reward programmes and suppliers are worried that loyalty will shift away from their properties (Christodoulidou et al., 2007). Mariussen et al. (2010) supported this, claiming that hotels fear fading brand recognition. Conversely, Green et al. (2012) found that the external distribution channels are already stagnating with the improvement of hotel brand websites. Possible identified solutions are customer relationship programmes that allow benefits only if a customer books directly with the hotel (Christodoulidou et al., 2007). Contrasting opinions claim that if hotels are not able to attract the guests visiting their website, it is their own liability because of an ineffective approach to online marketing and distribution (Singh, 2015). Moreover, the services and prices offered by affiliates are often more attractive to the customer than the offerings of the hotel itself, which should focus on easy accessibility, personalisation and relevance (PhoCusWright, 2012a, 2012b).

Finally, it is all about profit. Discounted rates directly reduce the hotels' profit margins (Myung et al., 2009). Pearce et al. (2008) even intensified the associated costs from commissions and net rates to time spent on sales trips, communication with wholesalers and maintenance of systems. Similarly, PhoCusWright (2012a) reported that internet distribution heavily influences profit margins and distribution costs. Notwithstanding, owning a direct channel is also not cost-free: advertising and time have to be spent to generate money from a company-owned channel (Pearce et al., 2008). This gives an advantage to bigger brands that own central reservation systems (CRS) and can cluster their marketing. In the end, hotels and especially Revenue Managers have to weigh up the benefits of expanded distribution networks against the loss of profit (PhoCusWright, 2012a). Online distribution has changed the hospitality market significantly and structural changes are needed on both sides, and both suppliers as well as distribution channels have to develop (Berné et al., 2015).

Project definition

This project aims to investigate the current state of affairs between tourism wholesalers and hotels in Berlin. The overall aim is to contribute to a mutually successful business relationship in the future, by clarifying the issues at stake, looking at potential misunderstandings in the relationship, and suggesting reasonable solutions. Out of these objectives the following arises:

Problem statement

Hotel rate parity is the focus: Is there a need for change in the contractual agreements between international hotels in Berlin and their wholesale partners?

Research questions

1. What are the benefits and drawbacks of the relationships between selected hotels in Berlin and their wholesale intermediaries?
2. How will the wholesale partners be able to ensure rate parity among their affiliated agents?
3. What needs to be changed in order to mitigate potential conflict and stop the imminent danger of an end of fair contracting between selected hotels in Berlin and their respective wholesalers?

Methodology

Verhoeven (2011) proposed that if the objective of the research is to investigate the perception and motives behind a certain subject, a qualitative approach is most useful. Since the objective of this research is to gain deeper insight in the perceptions of both parties in the wholesale distribution market with regard to needed change in the light of rate parity issues, mostly qualitative research has been applied.

Data and type of research

This empirical research is mainly based on exploratory research methods, namely through structured interviews. According to Verhoeven (2011), structured interviews are quantitative in nature but also tend to be open from time to time. Thus the three research questions are exploratory and answered by the qualitative interview data. The qualitative approach is consistent with other field projects on distribution channels (Myung et al., 2009; Schott, 2007). Furthermore, the first research question is more descriptive than the others and is answered additionally with quantitative data. Gaining insight from the knowledge of field experts, while taking a deeper look at key performance indicators (KPI) in a secondary analysis of the wholesale segment, gathered by desk research of the data warehouses of the hotels and the property management system (PMS) Opera as a quantitative aspect as well, illuminates the whole picture of the current situation, noting all the benefits and drawbacks for the hotels as well as for their wholesale partners.

Research sample

For the quantitative research, only data of the chosen properties were used for analysis, which equals non-probability sampling. The objective of the project was to use the results in the organisation, and experts of the field are the sample, therefore it was not possible to use a random sample (Verhoeven, 2011). The interviewees for the qualitative research were a Director

of Leisure Sales, a Revenue Manager, a General Manager and an Area Director of Revenue Management on the supplier side, and account managers and contractors of wholesalers and tour operators for the distribution channel party. Nine interviews were held, where the wholesale party prevailed slightly to ensure a fair share of opinions from both sides of the relationship. The sample size was adequate due to the fact that the population was drawn from a particular chain of hotels of Berlin and its wholesale partners. The biggest limitation in regard to the sample is that the account managers of the wholesale partners might be biased, due to the fact that they are business partners and may not be too critical in front of an associate of the other party.

Strategy, instrumentation and analysis

Interview questions were developed based on the findings of the literature review and in light of all three defined research questions. These questions were clustered into four topics: value, challenges, control and future outlook. A pilot interview was held with a Revenue Manager to guarantee that the questions were well ordered for a flowing conversation. It appeared that the hotels and wholesalers needed slightly adjusted questions and therefore two different sets of questions were created on the same basis. The participants were invited to the interviews either by telephone or in person. The contacts for the wholesale partners specifically for the two hotels were established with the help of a Director of Leisure Sales. After having completed the interviews, which with the wholesalers were all via telephone, and all in person with the hotel associates, it was confirmed that the information was treated as confidential. The length of the interviews ranged from 30 minutes to one-and-a-half hours.

Each set of answers gathered was then coded via allocation of subcategories deriving from the categories into which the questions already were divided – value, challenges, control and future outlook. Relationships were identified, contrasts highlighted and trends monitored and in the end combined and strengthened by the quantitative dataset and the given literature. The quantitative data were gathered by desk research and afterwards analysed and summarised to show developments in hotel occupancy, ADR and total revenue in the last years. The analysis via coding is in line with suggestions for qualitative data processing in the literature (Taylor-Powell & Renner, 2003). At the end, the reliability of the conclusions is discussed with professionals from the field. This procedure will ensure a consistent approach to this sensitive field of research. Due to the highly sensitive nature of the research, every precaution has been taken to make sure that the data obtained are not made public. We also provide study limitations and recommendations.

Results

To answer the research questions, interviews were held with management associates of the wholesale industry, including also the tour operator segment that contracts directly with the sample hotels. Furthermore, hotel managers from revenue management, leisure sales and from the executive and corporate levels were interviewed at the same time. In addition, the Data Warehouse of the hotels and the reservation system Opera were consulted to extract and analyse actual

production figures of the wholesale segment for supportive and argumentative reasons. First a comprehensive view of the given answers is shown and results are compared. Afterwards the actual figures are presented to validate the qualitative results.

The benefits and drawbacks of doing business with wholesalers

The first category dealt with is the reasons why hotels are still in business with the wholesale industry and what arguments might indicate that a termination of contracts would be more likely. Overall, both parties agreed on the major values and challenges within the business relationship between hotels and wholesalers on the Berlin market, as displayed in Table 1.

First, the worldwide visibility of the hotel product was mentioned most often and thus the connection to markets which are still relying on safe travel planning and areas that are still not tech savvy at the moment. One wholesale manager pointed to markets like South America or Asia. An associate of the hotels confirmed this by mentioning these markets while adding Russia and the Middle East. Furthermore, the preselection of hotels by the wholesaler was mentioned, especially from the tour operator perspective. With regard to this argument, the additional distribution partners from the wholesale network are mentioned as a value as well, but there is a lack of clarity about the number of valuable distribution partners. Figures ranged between 1 000 and 200 000 additional partners through the wholesale segment.

Moreover, both parties agreed on the great value in need periods and the consistent customer base the wholesale segment creates for hotels. One hotel associate from the corporate level views the value as way more critical. The incremental revenue gathered from wholesalers and the given displacement of room nights is not valuable, according to the associate.

Despite these facts, there was inconsistency in the answers regarding communication. Most of the wholesale and tour operator partners stated that communication by international hotel chains is nowadays one sided. This was confirmed by only one hotel associate, who considers the communication as a dictate of their corporate policy. All other hotel associates considered the communication as fair and balanced. The wholesalers, and especially the tour operators, claimed that their personal service is a clear value for the customer, which was not mentioned by the associates of either hotel, who stated on the other hand that direct booking with the hotel would create more personal service than any other channel.

More stated values included exclusive clients like airlines, convenience for guests, volume of business and the market knowledge of wholesale partners. These arguments were only given by individuals and not stated more than once.

Notwithstanding the overall unity of opinion about the value of wholesale business, the challenges of it are certainly viewed differently by hotel associates and the wholesale managers. Agreement could be monitored among both parties on the challenges with the static hotel policy, which insists on more and more dynamic contracting. Dependency on each other as business partners was considered as only given in low demand periods and rather not existent, due to the decrease in fixed room allotments and more and more closed sell dates in the free sale. However, both parties agreed that small mark-ups on the given net rates are the main cause of rate violations, which in the opinion of most of the interviewed managers unquestionably results in the travel agencies as being the main perpetrator of rate violations. Disagreement is clearly visible with regard to the dynamism of the other party. Both parties agree mutually that the other party is inflexible, which will be discussed later.

Overall, the room price is a big challenge and causes the most divergent opinions among the interviewed managers. In particular, whether or not the dynamic rate model can be applied by the wholesalers, the big discount wholesalers get from hotels, which is considered not big enough by the wholesale partners and the rate parity issues coming up more and more through this segment are causing a great discussion and will be discussed in the next section.

Controlling issues

Both hotels offer their guests a best rate guarantee on their direct booking channels, and give a high discount if they find reduced prices compared to the BAR on brand.com, which leads to internal investigations and fines.

All participants in the research agreed that all wholesale partners and tour operators know why the hotels are getting stricter year by year with these rate violations, mainly caused by business partners of the wholesalers. The best rate guarantee claims severely reduce the profits of hotels, as the wholesale rates are already strongly discounted. As a result the hotels do not abide by the agreed rates with the wholesale partners. Both parties agree that the rate violations are mainly caused within the wholesale segment (Table 2). A wholesale manager confirmed this during the interview claiming, "It is a very unstable market and the competition forces them to be aggressive in pricing. Otherwise they are not even able to

Table 1: Summary of answers given on value and challenges of the wholesale business

	Agreement between hotels and wholesalers	Disagreement between hotels and wholesalers
Value of wholesale	Worldwide visibility of hotels Connection to markets not tech savvy More distribution partners for hotels Safety for guests	Number of distribution partners for hotel Fairness of communication Personal service for guests by wholesaler
Challenges with wholesale	Great business for hotels in need periods Small mark-ups cause rate violations Hotels dropping prices another cause of rate violations Travel agencies are the root of rate violations Dependency is mutually given in need periods Static hotel policy hurts productivity Channel manager for wholesaler is missing	Pricing too low/high Who is responsible for rate parity creation? Dynamism of other party is criticised Contracts are not in favour of both parties Short-term promotions are not handled well

uphold positive cash flow." Likewise, most of the interviewed managers claimed that the control systems of the wholesalers are insufficient or even entirely lacking. Some declared that they not have the capacity to control their distribution partners and have to wait until the hotels claim a violation.

The overall number of rate violations per year, according to the interviewees, is not dependent on the size of the company but on the competition it is facing. Wholesale managers agree that the system forces them and especially the tour operators to price aggressively. In some cases, the hotels are also to blame, according to managers from both parties, when they drop their prices in the short term to react on slow demand or by giving out different rates for FIT and wholesale at the same time. As a consequence, travel agencies are then forced to sell products with low mark-ups only on volume room to guarantee positive cash flow. Conversely, a few wholesale managers claimed that wholesale is still a package business, and that they are only contracting partners who package their offered rates and that only tour operators are able to create profit through packaging. On the question whether wholesale is still a package business, both parties gave different answers. Hotel managers said that it never was totally and that room only products are the most common bookings in the contemporary electronic distribution landscape, especially from business to business partner (B2B). Moreover, another hotel manager stated that the 21st century guest is smart enough to package for himself and searches for the best deal individually. On the other hand, wholesalers believe in the package itself. However, one tour operator even stated that his company does not sell packages at all because its target group only demand room only products.

Disagreement dominates the control of prices and affiliated distribution partners. Wholesale managers claimed that the OTA often gets short-term discounts, while their segment gets completely left out. Hotel managers on the contrary blame wholesalers for causing rate parity issues that lead to such actions. The number of violations per year varies per hotel but is mutually indicated as decreasing, and below ten per wholesaler per year, and hotel managers overall indicated that it was below 30 per hotel. The last point, given equal attention by a wholesale manager and a hotel manager, was the importance of wholesale business if a potential economic or terror crisis arises, regardless of any control controversies. This point will be discussed in the next paragraph as well.

The road to a common future

A glance at the results shows that the future outlook of the business relationship does not appear united. The dispute

points to the dynamism of both parties. The hotels aim to not settle any static rate agreements by 2017, according to a member of the leadership team of the international chain

The interviewed managers are convinced that not more than 30% of third parties like tour operators are able to handle dynamic rate structures, for several reasons. Classic catalogue business would not be possible anymore and would cost a lot of revenue according to one hotel manager. This is confirmed by a wholesale manager's statements that their partners are not tech savvy enough to connect in real time, while another wholesale manager also claimed that his own company was too static to cope with dynamic rates.

Nevertheless, all managers, except the corporate-level hotel associates, agree that the room night production in the wholesale segment in Berlin will witness an organic increase due to increasing demand and supply mutually. Furthermore, managers of both parties indicated that wholesale will always have its share in the distribution mix, especially overseas and in certain target markets. Especially the wholesale managers stated that in time of crisis the given customer base and the guaranteed safety offered by wholesale partners will gain value again and hotel companies will revise their contracts again to the more static agreements presently demanded by the majority of wholesale clients. This opinion is not shared by the hotels associates, who state especially at executive and corporate level that safety is not a value claimable by the wholesalers, because in times of crisis, the guest demanding safety would not travel at all. Furthermore, the managers of the hotels believe that the future lies in the free sale system with a mixture of dynamic and static rates.

According to all given answers, dynamic rates are only possible with a channel manager (see Table 3), which creates an equal position for all wholesalers in terms of inventory allocation and allows dynamic pricing to be established. This would ease up the communication and would increase flexibility through real-time connectivity. Another point of agreement between both parties is that OTA are the biggest threat for the wholesalers, and according to the hotel managers also the only possible substitute, besides the direct channels which will be promoted more in the future. Peers in the wholesale segment are also seen by both parties as a big competitor. Despite these facts, some wholesale managers believe that they are not competing directly with the OTA and there is no real substitute for a wholesaler, which gives them their right to exist in the future as well. The interviewees disagree on the future profit development per room night. If the rates become dynamic the profits will go down, according to two hotel associates, because the average rate will decrease.

Table 2: Summary of answers given on control

	Challenges	Facts/Scenario
Agreement between hotels and wholesalers	Online competition forces rate violations Violations are not controlled until hotels complain Dynamic rates cannot be handled by most of the partners	Wholesale still a package business Control systems are not established exhaustively Volume sale with low mark-up is used to survive by TO & TA
Disagreement between hotels and wholesalers	Hotels cause rate violations OTA gets discounts, wholesalers are forgotten Wholesalers cause rate parity issues	Pricing too low/high Who is responsible for rate parity creation? Dynamism of other party is criticised Contracts are not in favour of both parties Short-term promotions are not handled well

By contrast, other managers claimed that this would increase profits on both sides. All parties interviewed blamed each other for being not flexible enough. Hotel associates said that wholesalers are not dynamic enough to implement short-term promotions, rate changes and additional room allocations in need periods. Likewise, the wholesale managers blamed the hotels as being too static with their policies, not considering market and target-specific actions and as not being fast enough in communicating prices, identifying need periods and launching promotions in response to these. Moreover, other trends like opaque sites, more targeted static rates as market specific solutions have been named by managers from both parties. One Revenue Manager explained:

The control over third-party clients is the biggest challenge this relationship has to solve for a common future. Moreover, we need more market-specific solutions within the hotel chain instead of an overall policy. Some markets are more static than others.

The last question on the opportunity for future contracting was the possibility of contractual penalties as established internally at hotel chains and whether the wholesale segment would accept this. Mutually, all managers claimed that it would be absolutely impossible in the current situation.

However, the hotels’ associates believe that if it is communicated in the long term it should be possible but it would cost even more flexibility. Wholesale managers emphasise the impossibility at the moment and rather demand a fair relationship with time for error tracking and compromises instead of static penalties. Another statement included a win-win situation, which would need a concession of the hotel chain in regards to allotments or static rates. The executive level manager of the hotels emphasised the impossibility by claiming that the costs overrule the benefit of such penalties, wholesalers would not even bother about the few penalties for detected claims. Overall the introduction of real-time connected channel managers, dynamic rates and the handling and control of rate violations are key factors mentioned by all interviewed managers, which have to be solved in order to create a mutually successful future.

Production figures

Regarding the production figures, it has to be noted that insignificant variances are to be found in the total figures of Opera and the Hotels Data Warehouse.

The figures of the Hotels Data Warehouse show that the value of wholesale business is shrinking. Overall 38.5% of wholesale room nights in 2015 at Hotel B can be considered as displacing more valuable business and therefore a loss of €258 800 of revenue. At Hotel A, the data reveals a similar pattern, 33.9% of the wholesale room nights are considered

as displacing which equals a displaced revenue of €578 734 in 2015. Less free sale and less allotments result in a 35.4% decrease of total revenue in the classic wholesale segment at Hotel B in 2015 (compared to 2014).

Similarly, a 13.3% decrease at Hotel A in the same time frame can be monitored in the Opera figures. Overall, room nights also dropped significantly in both properties (see Table 4) after a peak year in 2014.

In an effort to control the rate parity, the hotels decrease also the amount of tour operator room nights, which produced significantly in the past (Table 5), especially during the summer month. They are segmented equal as the wholesalers. A 53% decrease in RN by tour operators is monitored in 2015 compared to 2014 at hotel B. The hotel A similarly shows a decrease of 58% in the same time and segment, the total Revenue produced shows nearly 50% decrease in both hotels likewise. Everything supported by an increasing ADR in both properties, which increases the effectiveness of the production.

Another strategic decision by the hotels of 2015 is the connection of the wholesale segment to the dynamic BAR of each hotel instead of fixed rates contracted, which is an effort to control the rates as well as a next step into the future of the relationship.

Discussion

Benefits and drawbacks of the wholesale business for the hotels in Berlin

The relationship between the hotels and their wholesale partners needs to change in order to guarantee a mutually successful future for both parties. The results clearly identify the value of the wholesale business. The worldwide visibility and the big number of distribution partners are one of the reasons the business relationship is still maintained. This reinforces the literature which describes the astonishing sales and marketing effect through a global network (Myung et al., 2009). Moreover, the literature review revealed that personal service and the preselection of hotels and packages is valued by customers worldwide (Green et al., 2012). This was only confirmed by the wholesale managers. Hotel managers even denied this fact and claimed that the service on the direct channels of the hotels is more personal and more flexible. Moreover, the packaged business, which is claimed as convenient, is decreasing more and more, and room-only products are on the rise, as the figures show. Marriussen et al. (2010) described that one objective of affiliate marketing is leading customers to direct booking channels, but this was not mentioned by any party during the interviews and seems to be not relevant in the deliberations of hotels in Berlin.

The argument of safety in travelling through the wholesale industry was brought to attention during the research process

Table 3: Summary of answers given on future outlook

	Demand and supply	Solutions/Contracts
Agreement between hotels and wholesalers	Organic growth in RN production Crisis will bring back dependency on wholesalers Wholesalers will still have a target group, especially overseas Contractual penalties are not possible at the moment	Channel manager needed Direct connectivity is needed OTA are biggest competition of wholesalers Free sale with static and dynamic rates
Disagreement between hotels and wholesalers	Prices/profit will grow/stagnate Wholesalers’ customers are able to handle dynamic rates Static rates are demanded and necessary	Hotels are too static Wholesalers are not dynamic enough Catalogues/allotments have a future

by the wholesale managers, which is in line with the literature as well, in which has been claimed that travellers are searching for safety especially in times of economic crisis (Sedlacek, 2015).

The decreasing dependency is caused by significant challenges, especially due to contractual violations and a lack of flexibility of the hotels and the wholesale industry. This fact was agreed on by all interviewed managers but the biggest challenges appear at the stage of contracting. Myung et al. (2009) described that hoteliers need a broad range of sources to sell their inventory, which is partly still the case, but not at any price. According to the results of the research, the bargaining power in the hotel market in Berlin is shifting towards the hotels, away from the customers. This contradicts the literature, in which it is stated that hotels are keen to get rid of their unsellable rooms when struggling to sell directly (Tranter et al., 2009). The hotels seemingly see themselves as in the driver's seat, able to dictate the price of their product and force the wholesale industry to accept their increased prices and dynamic rate programmes while eliminating room allotments, which, according to the wholesale and tour operator partners, are desperately needed. The wholesalers still see themselves as partners who help the suppliers to get rid of distressed inventory in need periods and therefore want to have allotments throughout the whole year, which is consistent with the literature reviewed (Rich, 2002). The research seeks to understand why the hotels insist on dynamism, while the research clearly identifies that only 10 to 20% of the third parties are able to handle these rates and sell them to the guest in the end. However, the corporate hotel policy appears not to allow flexible, market-specific approaches. All of these issues lead to the main focus of this research, the rate parity.

According to Brewer et al. (2005), it is of crucial importance to select the right channels effectively and know how to work with them instead of eliminating the channels that seem unfortunate. The results reveal that the hotel chain is trying to do so by applying the overall policy of 100% dynamic agreements with wholesalers by 2017 to avoid rate parity issues in the core. Nonetheless, the results show that this policy might cost more than anticipated and rather might eliminate the production of the wholesale segment instead of making the business more effective. Production figures show a clear decrease of room nights and revenue, while the displacement figures shrink less fast, which results in less profit in the end. Meanwhile, Berlin is still growing fast in supply, ADR and

occupancy, but still performing below metropolises like Paris or Amsterdam (Dobberke, 2015).

In the end, the values of worldwide visibility and the continuous selling of rooms through all seasons has to be held against the biggest issues facing the hotels, which are the high cost of distribution and the rate parity violations that are undermining the hotels' price integrity. The value of products like catalogues, which are still common, appear not to be considered by hotel executives, which might be a mistake. The research reveals that the drawbacks of the wholesalers are exceeding the benefits for hotels at the moment, for which more and more policies get in place, which decreases the overall business with wholesalers, which the data exposed.

Feasibility of rate parity and control

Central is the point of control. The high competition in the leisure market forces tour operators to use aggressive pricing. Clearly, this is not a new insight, but even the wholesale managers admit that there is no actual control system but that they are not the source of rate violations brings in a new perspective. The research revealed contradicting mind-sets in the industry about who is the root of the problem. Even the hotels themselves might be the perpetrators by dropping their prices or giving short-term discounts to OTA, which creates inequality in the market. Undoubtedly the hotel corporation does not believe in the package business as the main contribution by the wholesale industry, while the industry itself still believes in the old model. This confirms the literature, which states that the wholesalers, instead of developing their products, just went on with the same static product onto the electronic age without questioning the need for flexibility in times of dynamic packaging, as self-bundling by the customer gets more and more popular (Sedlacek, 2015).

Moreover, the literature shows that different perceptions of reality and incongruent goals cause channel conflicts (Webb, 2002), which appears to be confirmed by the results, at least in terms of control and the future of the business. The entire wholesale industry, especially the electronic part, accordingly became more and more unclear and confusing. Both parties seem to have let control slip away and now are trying to get it back and this over the price. The hotel chain especially does that with adjusted terms and conditions to the contracts, not allowing further B2B selling of discounted net rates, which most hotels failed to do in the past (Starkov, 2004). Moreover, not contracting any static rates in the future and the erosion

Table 4: Wholesale production 2013–2015

Year	Total revenue		Average ADR		Total room nights	
	Hotel A	Hotel B	Hotel A	Hotel B	Hotel A	Hotel B
2015	€926 982	€396 401	€155	€61	5 998	6 479
2014	€1 068 894	€613 287	€144	€57	7 422	10 666
2013	€745 755	€577 107	€126	€56	5 908	10 272

Table 5: Tour operator production 2013–2015

Year	Total revenue		Average ADR		Total room nights	
	Hotel A	Hotel B	Hotel A	Hotel B	Hotel A	Hotel B
2015	€160 905	€19 396	€183	€52	881	375
2014	€332 927	€36 651	€159	€46	2 100	800
2013	€240 646	€48 238	€149	€53	1 617	916

of allotments and the enabling of the free sale are recent developments. However, belief in the dynamic only approach is not given throughout the industry and it is more than questionable whether this will control the rate parity issues. It will just make the claims more dynamic, and this moreover will decrease the wholesale ADR even more as the research revealed, due to the fact that at the moment the static rates are satisfyingly paired with the ability to close out dates.

Overall, the wholesale partners will not be able to guarantee control rate parity among their affiliated agents and not even have an interest in it. The hotels are taking action already on their own and not in the favour of the wholesalers, who are not always the cause of the violation. Without a win-win situation there will be no market-wide solution to this issue. One little wholesaler alone does not have the resources for control. An industry-wide solution with best practises of all main competitors might be the only solution.

Needed change for a fair mutual future

All of this creates a lot of manual input to uphold dynamic changes. All parties suggest the installation of a channel manager equally set up and central for all wholesalers, which enables all parties to make real-time changes. This clearly reinforces prior research, which holds the inability for real-time reflection of rates liable as a key challenge (Christodoulidou et al., 2007). It would allow short-term room allocations, price changes and special deals. This might increase rate parity throughout the system and through that increase customer loyalty as well, which is identified as vital, both by this research and the literature (Christodoulidou et al., 2007; Myung et al., 2009).

Nevertheless, the research shows that the leisure market in Berlin in the next years will increase more gradually than in previous years, although positively. Even the critical hotel managers admitted that wholesale still has a future, if it becomes more oriented to certain target groups and markets. The classical catalogue business seems likely to vanish in the next decade, according to the opinions of both the managers of the wholesale industry and the hotels equally. Only a few still believe in this static business.

Moreover, the profitability of the wholesale business was frequently discussed. Reinforcing this discussion was not the aim of the research but was inevitable when analysing the relationship between the hotels in Berlin and their wholesale partners. PhoCusWright (2012a) reported that internet distribution influences profit margins and distribution costs significantly, with discounts up to 25% under the best available rate (BAR). Despite this fact, an increasing ADR is anticipated in the wholesale segment due to higher rates and lower volumes. But the rate violations are increasingly expensive for hotels, resulting from case to case in a massive loss per room night. Facing this and the usual discounts given to wholesalers, hotels in Berlin decreased the production of wholesalers in 2015 by several thousand room nights while increasing their rates, aiming to be more profitable. Moreover, the increased efforts in customer loyalty programmes and special discounts for members are attempts to shift the demand away from the wholesale segment, which was a solution proposed by the literature as well (Christodoulidou et al., 2007).

Without question, this development is not appreciated by the wholesale segment and its affiliates. The results show

that hotel chains themselves seem to be inflexible as well, while demanding dynamism. Short-term promotions when discovering need periods seem to be a particular problem and should be tackled mutually instead of dictating the rates. Moreover, fewer available rooms make it hard to sell packaged offers to potential guests and makes the industry ineffective. This is a new point of view, seemingly left out by the international hotel corporation. The increase in rates consequently shrinks the profit margins for the wholesalers, who therefore have to sell on volume instead. This development is further hindered with free sales which often get closed too early, as claimed by the managers of the wholesale industry. The observation of Green et al. (2012), that hotels give discounts for the purpose of cash flow in an economic crisis or in low-demand periods through increased volumes, is certainly strengthened by the results of this research. But the total focus on revenue by the hotels and the intention to close out wholesalers in high demand periods, apparently not thinking about the need in low-demand times can create a spiral to the bottom. The classic wholesale business model appears impossible to maintain, even if the internal penalties for rate violations were contracted to the wholesalers, which is unfeasible, according to the results. Dynamic rates are bound to come, and they will put a lot of pressure on the business relationship of the hotels and the wholesale industry, especially if static FIT rates completely vanish. Wholesale managers propose market-specific solutions, which is supported by single hotel managers as well. Both parties agree that the policy is too static and is not applicable to all markets. In Berlin it might perform flawlessly in the coming years, but other more dependent leisure markets like Leipzig, Hamburg or Cologne may suffer more.

All proposed solutions like channel managers, a mix of static and dynamic rates or free sales will not uphold the competition of the OTA like booking.com or Expedia. Main competitors like Gulliver's Travel have demonstrated their power against the OTA competition and proved themselves very adaptable (Trend, 2011) but if they lose their key business of packaging they will just be merged or become another OTA with high commissioned business, which will decrease hotel's profits as well. Moreover, even the mighty OTA cannot replace the consistent customer base in need periods as the wholesaler's produce. However, the OTA are still the biggest competitor of the wholesale segment as well as the direct competition within the segment. Needed change is mostly given in the control of the channels, and the hotels themselves have to be flexible and pay closer attention to their prices and distribution mix to avoid rate violations and foster integrity. Automatic systems seem to be the next step for the relationship between the hotels and the wholesale industry to avoid further conflict and create more flexibility in price and inventory allocation. Moreover, the hotels need to change their radical dynamic policy to guarantee a fair future for both partners.

Conclusion

The research revealed several key factors that need to be implemented in order to tackle the rate integrity challenge of hotels in Berlin and the wholesalers, while bringing in a new point of view, namely that of the wholesale industry. The control of third parties will only be made more effective

through more open communication between the hotels and their partners, a more dynamic rate set-up, as already proposed and executed by the investigated hotels, and a readiness for short-term changes and on-time promotions or deals of both parties to react to low-demand seasons. Furthermore, real time connectivity is one USP of the OTA versus the wholesalers. If the wholesalers and tour operators get connected to the hotels' CRS through a channel manager, which also has to be fostered by the big corporations, the issue of dynamic rates, short-term changes and promotions as demanded by wholesalers would not be a challenge anymore. Overall, both parties have a common goal, namely the selling of rooms for the highest possible price, as one manager put it. This research confirmed topics like value and challenges of the business relationship and the issues of dynamic pricing. New perceptions on the price control challenge have been given, extending the given literature with the theory that the hotels are to a certain extent part of the problem, not only the wholesalers and their partners. Furthermore, the fact that most third parties are not yet able to handle dynamic rates is brought to attention and questions the effectiveness of the corporate hotel strategy. In order to maintain a successful future, as the problem statement pointed to, changes certainly have to be made in the contractual agreements between the hotels in Berlin and the wholesalers, and they have to be made mutually and should not be a dictation of terms and conditions from corporate level.

Limitations

This study was conducted by obtaining the conclusions of field experts on both sides, hotels in Berlin and their wholesale business partners, without considering the customer's point of view. How the customer views the whole process might add further value to the research, as in the end it is the guests that choose which channel's price suits them best.

Second, this study was carried out mainly using a qualitative approach and, on the wholesale side especially, the answers given reflect the opinions of market managers and contractors, who might be biased as business partners, but do not necessarily represent the opinion of the wholesale company as a whole. Finally, all the research was based on the Berlin market and from the perspective of upscale and luxury hotels. Hotels who position themselves differently may have other points of view on this topic.

Recommendations

Based on the discussion and conclusions of the research, clear recommendations can be made for both the hotels of Berlin and their wholesale partners.

The research revealed that wholesalers have to adapt to the dynamic rate system. They have to implement technology which allows them to be real-time connected to the CRS of the hotels. This implies the creation of a platform where the connection is centrally controlled and equal chances for all business partners are secured. Real-time connectivity will enable the possibility of automatically changing dynamic rates underneath the BAR of each hotel, the reallocation of rooms in all periods and a simplified loading of new promotions to all business partners, as is already done with the OTA.

Communication between the parties has to be improved. The study revealed that all parties experience the current situation as a one-sided relationship from the corporate level. The demand for dynamic rates is not given at the moment, but the necessity for it in order to decrease rate parity violations is known. The third parties are just not ready at the moment, and therefore static FIT rates are still desperately needed.

The hotel chains should contract the big wholesalers globally and dynamically. But each market should be able to contract more specified static FIT rates to ensure cash flow in need periods and the continuation of business relationships especially with tour operators with catalogue business. Catalogues appear to be more important than most managers of hotels realise.

Finally, a most important recommendation is the establishment of a common control system, created by field experts and the global wholesalers together. Not every wholesaler has the capacity to control its partners and therefore the hotels should be cooperative in this matter. Smaller wholesalers might be forced to price aggressive by the hotel itself and are then blamed for rate violation. A hotel has to create a fair situation together with the wholesalers in order to profit from them in the future. The need for this relationship is still given.

The study added the wholesalers' point of view to given literature on the field but lacks the customers' perspective. Research is needed to investigate guests' perceptions on dynamic prices and booking behaviour.

Finally, the study is based on local field experts' opinions and lacks verification of corporations' strategic decision makers, especially on the side of the wholesale industry. Qualitative research has to be applied above market level in order to create a full picture, with the company's strategic direction and not only the opinions of individuals.

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