

## Analysis of hotel reservation prices in Spain depending on the distribution channel

Víctor Gómez Frías, Teresa Sánchez Chaparro

Área de Ingeniería de Organización. Universidad Carlos III de Madrid. Avenida de la Universidad, 30 (28911 Leganés, Spain). victor.gomez.frias@uc3m.es, teresa.sanchez@uc3m.es

### Abstract

*The hotel management in the Spanish businesses shows a considerable delay when compared with the rest of Europe. In the context of a project "Smart decision support system for hotel management" financed by the National Plan of Research and Development, that intends to propose an advanced system that would help decision taking in this environment, this article surveys the present situation of the sector in the world and particularly in Spain through a review of the state of the art. Particularly, we develop the functional specifications of the system: history, offer and demand, costs, prices, distribution channels, agent's cooperation, management techniques. The article studies the differences in reservation prices in the hotel sector in Spain depending on the distribution channel. Intermediary agents, such as travel agencies, increase reservation costs up to a 30%, but there are significant variations depending on the product and the channel. The average rate offered by travel agencies is more expensive, in general, than direct reservation. However, surprisingly, if a more detailed research is done, the best rate in any travel agency improves direct reservation in 58% of the cases. This proves the lack of confidence of providers in their own services, but some hotel chains are counterattacking giving low-prices guarantees.*

**Keywords:** hotels, reservation prices, distribution channel.

### 1. Context of the problem and the research project

Tourism represents a 12% of the gross domestic product in Spain, where 50 million tourists are received each year. A 60% of the businesses that manage the hotel establishments are small or medium (less than 250 employees) and the sector is facing the need to increase its competitiveness as the income generated have been stopped. In particular, there is an insufficient use of modern systems of management, compared with other European countries. The proposal of the project of research is to develop an advanced system to aid business owners in their decisions, that attend especially the needs of small and medium hotel groups.

The project of research belongs to the National Plan of Research and Development of the Spanish Ministry of Education and Science in the year 2005, where the Industrial Engineering Area of the University Carlos III of Madrid participates along with other research teams of the University of Seville, Oviedo Polytechnic of Madrid. The group involves around 36 researchers in the project, and the contribution of at least five groups from the hotel sector that have declared its interest and support. The title of the project is: "Smart decision support system for hotel management".

The project is organized through six phases: definition of the system, development of the primary subsystem (characterization of the demand), development of the secondary subsystem (quantitative methods of management), development of the subsystem of real options, support system integration to the decision in its business framework (included extension to continuous environments), and system implementation.

The Industrial Engineering Area of the University Carlos III of Madrid coordinates the integration of the system of support to the decision in his business framework and also he participates in the coordination of the establishment of the system. Besides, it develops the following tasks: functional specifications, simulation of arrivals, integration inside the process of reserves, extension to continuous environments, validation of the system of support to the decision, demonstration and validation of the establishment of the system.

The definition of the functional specifications is therefore the first chapter to develop, being besides indispensable its elaboration for the whole of the project of research that develop the four research teams. In fact, although in the study of the demand and the remainder of modelling of the problem be going to carry out in detail the study of the components of the system, the study of the functional specifications (al the same as occurs with the analysis of the concept and type of system) will sit down the methodological bases of the project, so that an insufficient study of these questions would negatively affect the whole research project.

We especially study future demand and price in function of the occupation and of the time of anticipation of the reserve. Therefore, it does not intend to cover all the processes that intervene in a hotel or in other businesses but to concentrate in maximizing the incomes per room. This communication, as a consequence intends to present two milestones that have been worked in the project: characterization of the demand and improvement of the processes of reserves.

We describe how providers (individual hotels or chains) are trying to go up the information line towards the client, improving their direct offer in the Internet, which is already the market place for about half of the rooms booked. However, travel agencies keep a significant power as a few control more than half of the reservations made in the Internet. At present, the battle is concentrated on prices but also in the integration of other leisure services. In this second factor, travel agencies take advantage over hotel chains as they consolidate the offer of many providers. We finally show how hotel chains are attaining some results on agreements with car rentals or organised tours, for which we propose a method for assessing if they perform well. However, the difficulty for making covenants with airline companies remains as the possible air routes that bring clients to a hotel are often not cover by only one airline company (and it is worst for a hotel chain).

## **2. History of the hotel business**

Stewart Weissinger (2001) travels through the history of the hotel business situating the origins of this service in a remote epoch. Nevertheless, the present configuration of the hotel establishments can be considered (size, benefits) that it crystallized considerably in the 60's of the 20th century. If we concentrate on the sector (business groups), it happened from the 70's to the 80's. The methods of management, a few years later (as corresponds to the adaptation of the techniques to the business realities). Lattin (1975) permits to verify this evolution, but besides gives evidence as a good part of the bases of the business were formed and "froze" in that period.

Nevertheless, these sources refer especially to American market. If we observe statistics for Spain as the ones that are found in Felipe Gallego (2002), or like the analysis of the evolution and of the present situation that expose Bald (2004) or Mestres Soler (2003) is observed that Spain has suffered a delay of almost a decade on these processes of change, though the path is being traveled very fast pushed by the important growth of the demand since the tourism boom in the 60's, being now of great importance in our economy.

### 3. Supply and demand

Felipe Gallego (2002) situates the offer of Spanish hotel beds in 1,215,000 in 2000, being registered an increment each year since 1960, when an offering included itself eight lower times. In recent years, the rhythm of growth is situated in the 2%. These figures are contrasted by Cerra et al. (2004).

It can be observed besides that, although these figures correspond to the totality of beds offered in hotels and in boarding houses and pensions, the evolution of each of those categories has been different. In a first moment, the boarding houses and pensions grew more quickly, being stabilized from the beginning of the 80. Since then, are the hotel beds the ones that produce the increment of offering. In 2000, they were distributed among 1,010,000 in hotels, set against 205,000 in boarding houses and pensions.

The overnight stays reached the 213,000,000 in 2000, according to the same source, what show the high average occupation of the establishments (71.5% measured by rooms; 63.4% measured by beds, in 2000). A 54% of the clients were Spaniards; the following more noticeable nationalities were Germany (11%), United Kingdom (10%) and France (4%).

Almost the half of the overnight stays were demanded in establishments of three stars, that were the ones that more percentage of utilization presented and greater average duration of the stays (4.83 days, while the general average was 3.83). These two variables were distributed decreasingly since this category to the lower and upper, according to Calvo (2005).

### 4. Structure of costs and prices

According to KPMG (2005), on a worldwide basis, large differences in the prices offered according to the channel of distribution exist. Intermediary agents can cost to the suppliers up to a 30%, that is the margin that travel agencies retain.

According to Rutherford and O'Fallon (2007), the reaction has been that the suppliers are enlarging their direct offer in the Internet, what has been produced with considerably success since in this channel they have reached already 56% of the quota. This does not it evitate that the travel agencies have a great size since they distribute 44% of all the nights sold in the Internet, while each supplier markets only their own.

Currently, the fight is polarized among the prices, and the integration of leisure services. Obviously, in this second factor the travel agencies have a lot of advantage since they concentrate the offer of many different companies. Nevertheless, as it declares Biosca (2003) the hoteliers have not abandoned this question and they present numerous services of leisure associated to the hotel (visits, rent of cars, etc.).

We believe that the major impediment for the suppliers of hotel beds is that they cannot combine easily their offer with those of long distance trips. The reason is that in this case, preferential agreements with concrete users are not enough, as occurs with local trips, since the long distance trips (especially those of airplane) have too much specialization of the businesses according to routes and, therefore, a single company would not be able to satisfy the needs of many clients.

As for the prices, the reservations by indirect channels (with mediation) presented cheaper prices than the direct channel in the 58% of the cases. This evidence, according to Vila Fradera (2003) that the suppliers have not obtained so much efficiency in their own media of distribution,

neither they trust in them.

Although this figure means that, in general, an indirect channel exists and provides a lower price than the direct one, we do not have evidence of which is the average price of the intermediaries (that besides they can be very numerous). Thus therefore it is possible that the previous result is compatible with that going to the direct channel is, as a first option, the one that presents the hope of getting a lower price.

With regard to this, it is interesting to observe that a 43% of the hotel groups presented in 2005 a guarantee that its web page was the cheapest price for their beds. Nevertheless, a surprising result is that alone in a 27% of the cases was certain. As for the repercussion of the channel Internet, it is far from the impact in the prices that has reached in other sectors. Only in 36% of the cases the cheapest rate was found in on it.

## **5. Cooperation among agents**

We believe that the results presented in the previous section should conduct to defend the cooperation among travel agencies and hotel establishments. This it is more clear as grows the importance of the Internet sale channel and, especially, due to prices comparison websites, that mix the offering of agencies and hotels. These places already were frequent in the air sale.

A question that is extensively discussed in the sector, as can be found in Tempelmann (2004) or Ismail (2001) is the importance that the hotels set codes of good conduct to the travel agencies. The interest is that the behaviour of agencies may not be suffered by the hotel's relations with their clients.

## **6. Management techniques**

In the last decade, as in so many other sectors, the revolution in the systems of information and communication have prompted an evolution in the techniques of management. Nevertheless, as indicates Arcarons Simón (2000), some of these changes already were already in motion and other would have been produced even without the impulse of this technological revolution.

Caro Herrero (1999) already indicated the need to incorporate the technology of Work Flow through the data processing systems of hotel management. Guevara (2000) collects the importance of a integrated remote system of reservations, and of hotel management back-office; but also the installation of services in the hotel as the interactive television or the use of the cards chip, useful both for monitoring and for the clients comfort.

As for yield management, it appears mentioned in Aranda Hipólito (1994), but is more developed in more recent references as Vidal González (2004) or González and Talón (2002). Its origin, like so many other tools that apply in the hotel sector, appeared in the airplanes reservations sales commercialization. It compares the benefit of sale anticipated to lower prices related to late reservations that can attain a greater price. Although it admits as well that in the last moment cheaper reservations can be offered.

The objective is to maximize the income that is obtained for each reservation, which needs a tuned up prediction of the demand, but also to carry out dynamic adaptations about the evolution of the reserves for specific dates. It is based on a type of environment that fulfills the following characteristics: fixed capacity, perishable stock, segmented demand and changeability.

As for the phases of the yield management process, González and Talón (2002) present the following: to develop the culture yield management, to analyze the demand, to determine product-service, to segment the market, to analyze the behaviour of the demand, to investigate cancellations (only when the demand is high), to evaluate and to determine new actions that provide feed-back to the technique.

## 7. Future research

In the context of the project of the National Plan of Research and Development, a new system of aid will be proposed to help decision taking in the hotel management. This should permit an improvement of the incomes by each room, from its essential condition of production with fixed capacity and without capacity of storage (accessible by means of the technique of the yield management).

An updating of the studies of the hotel market other tools will be incorporated such as arrivals simulation model, the configuration of the present real options in this problem of management or a detailed integration of this system in their business framework, exploiting the possibilities that the new information technologies offer and which, for this object of study, are as powerful as still little utilized.

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