

Benefits and Problems of Using Online Travel Agencies (OTAs): A Study of Independent Hotels in Thailand

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ABSTRACT

The objectives of this research are firstly, to study the benefits and problems of using OTAs by independent hotels, and secondly, to explore how independent hotels react to and solve the problems. Independent hotels in major tourist destinations were used as a case study. Semi structured in-depth interview was employed as the method for data collection. Altogether 20 hotel managers were interviewed. After the content analysis, the study revealed both benefits and problems of using OTAs by hotels. The benefits are categorized into two areas i.e. the benefits for the hotels and the perceived benefits for hotel clients. The benefits of using OTAs by the hotels are increased bookings and revenue, increased distribution channels, promotional opportunities, flexibility on rate adjustment, and benefits for hotel operations. The perceived benefits of the hotel clients were found to be mainly convenience and price. The problems of using OTAs by hotels are price cutting, high commission, rate disparity, no show problems, OTAs using wrong pictures, negative reviews, payment problems and other hotel operation problems. The solutions used by respondents for solving the problem of price cutting are OTA contract termination, room upgrading, and selling to groups. The solution for high commission is to work with conventional tour operators. For rate disparity, hotels solve the problems by targeting MICE groups, seasonal rate adjustment, selling rooms with packages and special promotions, and introducing membership programs. The solutions to OTAs using wrong pictures are to inform OTAs to use the correct pictures, offer unsatisfied guests with complimentary meals, and updating hotel's website with new pictures. However, there are no comments about the solutions for no show problems, payment problems and negative reviews.

KEYWORDS: Online Travel Agency, OTA, Hotel Sales Management, Independent Hotel, Thailand

Introduction

The development of the Worldwide Web (WWW) as well as online marketing have impacted and changed hotel and hospitality sales dramatically. Due to the growth of computer and mobile phone usage, more and more consumers prefer to access information online and turn to online purchasing (Verma, Stock, & McCarthy, 2012). This is not only limited to commodity products, but also to tourism and hospitality. Verma et al. (2012) found that travelers referred more to brand websites, OTAs, and TripAdvisor. However, later in the decision-making process, the respondents tended to visit brand websites or go to an OTA to book their rooms.

Online Travel Agencies (OTAs) have been important for the overseas transient segment, particularly for small and independent hotels. In the first quarter of 2015, the results for individual leisure and business bookings showed year-on-year growth in bookings made via OTAs at 15.10%, brand.com at 7.10%, and GDS at 1.10%, whereas direct and CRS bookings decreased by 8.40% and 6.10%, respectively (Barthel & Perret, 2015).

Barthel and Perret (2015) stated that the OTA segment is becoming a strong competitor to the individual booking sector and distribution channels; it has

already taken a substantial share from traditional contracted booking channels, who are mainly wholesalers and tour operators. Chubchuwong (2018) found that bookings from online travel agencies (OTAs) have a strong impact on hotel sales revenues. The research indicated that apart from leisure travelers, individual business travelers from corporations and officials from government segments have recently and slowly leaned towards using OTAs because the room rates are more competitive.

Previous studies on hotel online distribution has focused on pricing strategies and room availability issues for different hotel segments (Gazzoli, Kim, & Palakurthi, 2008); the effectiveness of OTA websites (Park, Gretzel, & Sirakaya (2007); and the effectiveness of online bookings (Ye, Law, Gu & Chen, 2011). However, there has been little attention given to the supply side, particularly to the benefits and problems that independent hotels encounter while working with OTAs, particularly in Thailand. As the global tourism industry will continue to grow, it is believed that OTAs will play an even greater role in hotel room distribution. This author assumes that apart from the benefits, there might also be several problems associated with working with OTAs by independent hotels worldwide. Thus, the author is interested to study this topic using

independent hotels in major tourist destinations in Thailand as a case study.

Objectives

The objectives of this research are firstly, to study the benefits and problems of using OTAs by independent hotels, and secondly, to explore how independent hotels react to and solve the problems.

Literature Review

Nowadays hotel distribution channels for transient bookings can be grouped into five major categories: 1. Online Travel Agencies (OTAs), 2. Central Reservation Systems (CRS), 3. Direct (such as walk-in and telephone), 4. Global Reservation Systems (GDS) and 5. Brand.com (Hotel websites) (Barthel & Perret, 2015). Based on Barthel & Perret (2015) the results on individual leisure and business bookings for the first quarter of 2015 showed year-on-year growth in booking made via OTAs at 15.10%, brand.com at 7.10 and GDS at 1.10%, whereas direct and CRS bookings decreased by 8.40% and 6.10%, respectively. It can be seen that OTAs reported the highest growth among all channels.

Gazzoli et al. (2008) stated that one of the main reasons for the success of OTAs was their ability to offer cheaper rates than those offered by hotels and their reserva-

tion offices. Global hotel distribution survey revealed that online intermediaries offered the cheapest room prices in 36% of all cases. However, in regard to room availability across all channels, hotel websites were the most reliable online way to find a room (The KPMG, 2005, in Gazzoli et al., 2008).

In the 1990s, online travel intermediaries were established (Barthel & Perret, 2015; Gazzoli et al., 2008) and have later become the main global e-intermediaries. Microsoft launched the Expedia Travel Service in 1996 in the USA, followed by its European counterpart, Priceline, in 1997 (Barthel & Perret, 2015; Gazzoli et al., 2008). Both platforms allowed customers to book their holidays online. Based on Barthel and Perret (2015), the two most important OTA players are Expedia and Priceline. Expedia gained first position in terms of worldwide gross bookings, whereas Priceline was the largest OTA by revenue.

In Thailand, the brands that are most well-known are Agoda.com and Booking.com. Booking.com B.V. is part of the Price Line group. It was established in 1996 and was translated into 40 languages. It included 913,667 hotels in the network. Agoda Company Pte. Ltd. was established in 2005 and in 2007 it was acquired by Price Line. It has offices in more than 20 countries including Thailand. Agoda.com has more

than 100,000 hotels in their network and the website has been translated into 38

languages. Figure 1 shows two major OTA companies and their brands.

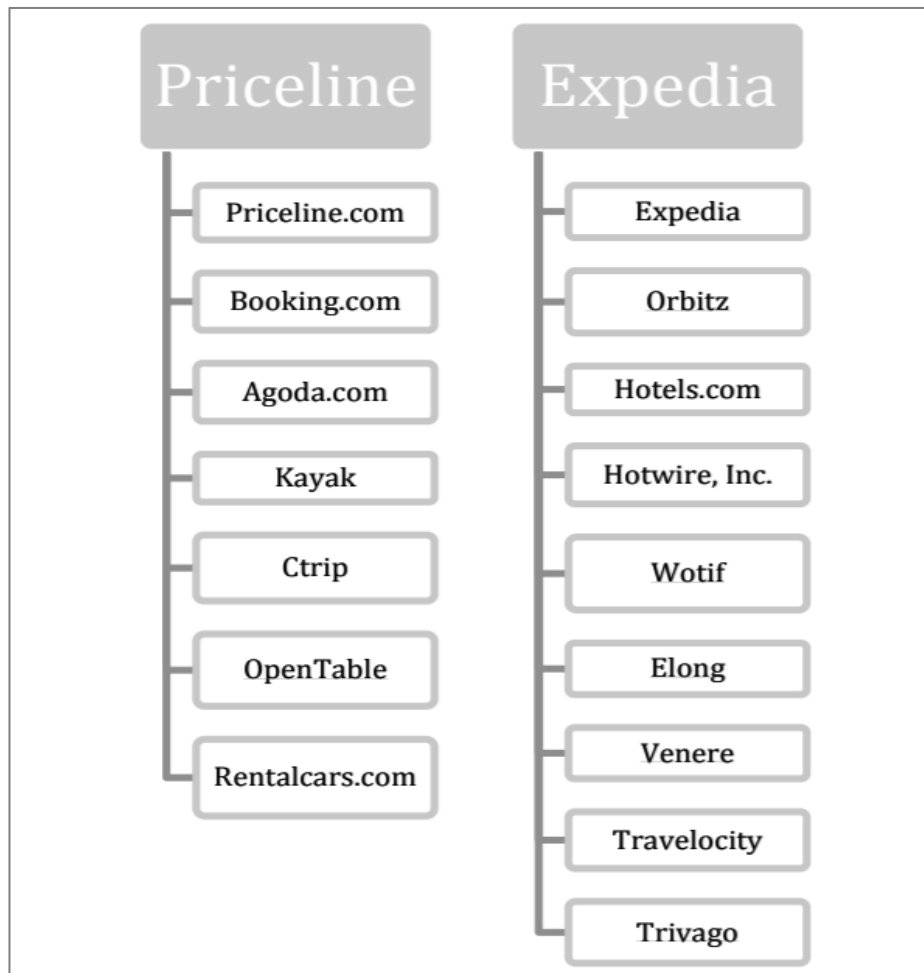


Figure 1 Two major OTA companies and their brands

Source: HVS Research in Barthel and Perret (2015)

Based on the research of Tsang, Lai, and Law (2010), the satisfaction of OTA customers is based on website functionality, information quality and content, fulfillment and responsiveness, safety and security, appearance and presentation, and customer

relationship. However, only four dimensions were found to significantly influence online customers' overall satisfaction and repurchase intention: website functionality, information quality and content, safety and security, and customer relationship.

Literature revealed that small, independent hotels have gradually come to depend more and more on OTAs (Barthel & Perret, 2015). However, research also revealed that hotels have complained about the high commission rates that they paid to OTAs and the impact on their revenue (Barthel & Perret, 2015; Gazzoli et al., 2008). Even though OTAs provide a lot of benefits to hotels such as online bookings and market exposure, the fast growth of this segment and the high commission of this channel constitute a major concern for hotels. While independent hotels in Thailand gains a lot of benefits from OTAs; however, they might also have encountered several problems.

Methodology

In order to explore the benefits and problems of independent hotels using OTAs, the author employed in-depth interview. Given the lack of previous research on the topic, in-depth interview is an appropriate method to enhance the understanding of the issue. This research uses independent hotels in major tourist destinations as a case study.

Data Collection

‘Selling hotel rooms via OTAs’ was one of the topics in the ‘Hotel Sales Management’ course which the author taught to 3rd year hotel students. The class consisted

of 75 junior students, and was divided into 25 groups for experiential learning, three students in each group. Students were assigned outside classroom learning by interviewing an executive or a senior manager from an independent hotel located at a tourist destination about this topic. Tourist destinations were selected based on the convenience of the students. Similarly, hotels were chosen based on their permission for students to make an interview with a manager. The key information was the managers or owners of independent hotels whose positions mostly involve hotel reservation. These respondents have been using the services of online travel agencies (OTAs) for not less than 1 year. The background information about the research project and the interview questions were explained. At the end of the project, 25 hotel managers were interviewed. However, as some of the answers were not completed, only 20 hotels were used for the analysis. Each interview was reported to last about 40 minutes to 1 hour.

The researcher prepared three simple generic questions to guide the interviews. They were: 1. What are the benefits of using online travel agencies?; 2. What are the problems of using online travel agencies and 3. What have you done to solve the problems?

However, there was screening questions to obtain basic information about the respondents and their hotels such as the number of years that they have worked with OTAs, the brands of OTAs that they have worked with, and whether the hotels have their own online booking engines to accept direct online reservations. In addition, the profiles of respondents were obtained i.e. gender and position.

The results were analyzed by applying the constant comparative method (Creswell, 2007). Answers were categorized into groups of similar responses. When additional answers/comments which did not fit into the existing categories were received, new categories were created. Within each category, common properties or subcategories were listed, and the data were dimensionalized.

It is hoped that this research will reveal some important factors that can be used to create a conceptual model for further empirical research on this topic.

Research Results

The respondents of this research were managers of independent hotels of various sizes. 50% of the hotels are based in Bangkok and Nonthaburi (a province adjacent to Bangkok) and the other 50% are hotels based on major tourist destinations i.e. Pattaya, Hua-Hin and Pranburi, Phuket, Phang Nga, Krabi, and Ratchburi.

55% of respondents were female and 45% were male. The majority worked in positions that involved working with OTAs, such as front office managers, sales managers, hotel owners. All of them had at least one year's experience working with OTAs. The study reveals that the hotels in Thailand have used OTAs for about 20 years. Fifty-five percent of the hotels have their own online booking engines, while 45% do not. The most used OTAs according to the respondents were 1) Booking.com (19), 2) Agoda.com (19), 3) Expedia.or.th (13), 4) Traveloka.com (8), 5) Ctrip.com (7), 6) Trivago (2), and 7) HRS.com (2). The others were Asiatravel.com (1), Rakuten.com (1), Nustay.com(1), Sawadee.com(1), Gorbibo.com(1), Makemytrip.com(1). The profiles of respondents are shown in table 1.

Table 1 Profile of respondents

Hotel no.	City	No. of Room	Position	Gender	Years of OTA Use	Have Own Booking Engine
1	Nonthaburi	67	Head of Sales	F	2	Y
2	Pattaya	200	F/O Manager	M	20	N
3	Pattaya	265	F/O Manager F	F	8	Y
4	Pattaya	339	F/O Manager	F	7	N
5	Phuket	110	Hotel Owner	M	2	N
6	Phang nga	15	Hotel Manager	M	1	Y
7	Bangkok	660	Senior Sales Mgr	F	15	Y
8	Ratchburi	36	Hotel Owner	F	n/a	N
9	Nonthaburi	76	F/O Manager	M	2	N
10	Bangkok	50	F & B Manager	M	3	Y
11	Bangkok	315	F/O Manager	F	10	Y
12	Krabi	27	Sales Manager	M	5	Y
13	Pattaya	23	Sales Manager	M	3	Y
14	Pranburi	13	Hotel Manager	M	2	N
15	Bangkok	70	General Manager	F	1	N
16	Bangkok	150	Director of S & M	M	15	Y
17	Nonthaburi	90	Receptionist	F	3	N
18	Hua-Hin	134	HR Supervisor	F	10	N
19	Bangkok	150	HR assistant	F	n/a	Y
20	Bangkok	13	Owner	F	2	Y

Benefits and Problems of Hotels Working with OTAs

The results of the findings are reported below and the numbers in the brackets are the frequencies of respondent comments.

After the content analysis, the benefits of using OTAs for the hotels are categorized into two areas i.e. the benefits for the hotels and the perceived benefits for hotel clients based on the managers knowledge and observations.

Benefits for Hotels

The benefits of working with OTAs for hotels can be classified into 5 topics as follows:

1. *Increased bookings and revenue* (increase in bookings (7); increased revenue (4))

2. *Increased distribution channels* (reach new and wider markets (5); increase distribution channels (2), OTAs have database (1))

3. *Promotional opportunities* (it makes the hotel more well-known (5); good selling and marketing tool (3); and pictures and websites can attract more clients)

4. *Flexibility on rate adjustment* (even in the low season the hotel can increase prices; when selling to OTAs, they can increase prices so they can sell rooms at higher rates; can set the prices, allotment, promotions for clients to choose; have some sales promotions available as it was requested by OTAs.)

5. *Benefits for hotel operation* (OTAs have supporting staff to assist the hotel; they can charge to credit card; can acquire customer feedback from client reviews for improvement (2); it is easy for staff to work as they have information from the bookings already; when selling through OTAs, the hotel does not need to spend more on hiring sales people).

Perceived Benefits for Clients

The perceived benefits for clients can be divided into two major topics i.e. convenience and price.

1. *Convenience* (it is convenient and fast (5); clients like to book with OTAs; clients can check the rooms and pictures before making a reservation; clients can find the hotel easily; they can read reviews; clients do not have to pay a deposit before check in.)

2. *Price* (OTAs have consistent prices; clients can compare room rates; selling through OTAs is safe and reliable; clients have some sales promotions; price comparison and advertisement of hotels on OTAs websites.)

Problems with OTAs and How the Problems were Solved

The problems are grouped into eight topics together with the methods used by respondents to solve these problems. They are

1. *Price cutting*

The largest number of comments was about price cutting. OTAs cut the prices with other OTAs and hotels (7); OTAs also cut their own commission in order to reduce rates and attract guests to book their brands; OTAs can reduce rates and offer promotions without the advanced agreement of the hotel.

Respondent comments about how to solve the problems are as follows:

- The hotel can complain and terminate the contracts with OTAs.
- The hotel can offer clients lower rates.
- The hotel can upgrade the room to a higher category to solve problems.
- The hotel can try to sell to groups as it is easier to close sales.

2. *High commission*

There were three hotels which complained about the high commission requested by OTAs. Sometimes it is as high as 40% in the low season and 20% in the high season.

One hotel commented that the hotel prefers to work with tour operators because they are more reliable.

3. *No show problems*

When working with OTAs, the hotels have a higher risk of no shows (5); short notice cancellations (2); misunderstandings about the source of bookings (2). There were no comments about how to solve these problems.

4. *Rate disparity*

Rate disparity occurs when lower rates are being offered on OTAs and other distribution channels than on hotel's own website.

Respondent suggestions about how to solve the problems are as follows:

- The hotel should target meetings, incentive groups, conventions and exhibitions or events (or MICE segment) as they book many rooms at higher rates.
- In the high season, they can raise the room rates and in the low season they have to reduce the rates.
- Hotels can sell rooms at package rates or sell rooms with special promotions.
- Hotels can have membership programs for frequent guests.

5. *OTAs using the wrong pictures*

Some comments referred to problems about pictures and prices of rooms on OTAs websites not being correct. OTAs take pictures of hotels and post them on websites without asking for the hotel's permission.

Respondents suggested the following to solve the problems:

- Inform OTAs that they use the wrong pictures.
- Apologize to guests and offer complimentary meals.
- Always update the websites with new pictures of the hotel.

6. *Negative reviews*

Clients' reviews on the website can be negative. They can write anything, which may affect the hotel's reputation.

7. *Payment problems*

Clients refuse to pay after their stay; the hotel cannot charge the guests because they use fake credit cards.

8. *Other hotel operation problems*

There are other problems related to hotel operations such as overbooking; difficult to build customer loyalty; difficult to sell via the hotel's website; clients do not provide all information until they arrive at the hotel and if there is a problem with the internet, it is difficult to access the information.

Additional Benefits

The research provided additional benefits for students of Hotel Sales Management class. Students were taught about sales techniques, conversation skills, and personality development prior to going out on the visit. They were requested to report about the beneficial aspects of this activities. The benefits gained by students were analyzed and listed in the order of the most frequently mentioned as follows: 1. Sales techniques (10); 2. Conversation and communication skills (9); 3. Personality development (7); 4. Gain direct experience

(4); 5. Problem solving (3); 6. Team work (3); 7. Listening skills (2); 8. Telephone conversation skills (1); 9. Other learning experiences (2) e.g. can gain direct experience from the suggestions of marketing people.

Discussion

The research reveals that OTAs have been used as a distribution channel by hotels in Thailand for about 20 years. All respondent hotels in this study are using OTAs for their room sales and the most popular brands are Booking.com and Agoda.com, followed by Expedia.or.th, Traveloka.com and CTrip.com. Fifty percent of the hotels do not have their own booking engines for direct online reservation. The fast growth of OTAs has resulted in an increasing concern for Independent hotels in the past decade (Barthel & Perret, 2015; Gazzoli et al., 2008).

Independent hotels reported that they gained a lot of benefits from working with OTAs. The most important benefit is the increase in the number of bookings, increased revenue, and the increase in the number of distribution channels. The second benefit is reaching new and wider markets due to the global exposure. According to Barthel and Perret (2015), Booking.com has been translated into 40 languages, and Agoda.com has been translated into 38 languages, therefore hotels that work with those OTAs can be

reached by international clients and widely promoted by this channel.

In terms of room rates offered to OTAs, the hotels have more flexibility to adjust prices on OTAs both in the high and low seasons, and it is easier to offer promotions and last minutes deals. This does not usually happen for contracted tour operators and travel agencies where the contracts with the hotels are agreed annually and are effective all year round.

For the hotel operations, when working with OTAs, hotels can reduce payroll expenses as they can spend less on hiring sales people. It is easier for reservation staff to work as they have access to information about the OTA bookings. OTAs also have supporting staff to assist the hotels. In addition, in terms of payments, they can charge to credit cards. Hotels can also obtain customer feedback from client reviews.

The perceived benefits for clients based on the awareness and observations of the respondents are mostly related to convenience and price. The respondents believed that it was convenient and fast for clients to book hotel rooms with OTAs, and clients can compare the prices and facilities before making decisions. It was reported that the room rates on OTAs are usually lower than the hotels' room rates. This reason confirms that the hotel prices are undercut

by OTAs as stated by Barthel and Perret (2015)

There are still numerous problems and threats that result from working with OTAs. This research revealed eight major problems for hotels when working with OTAs. Firstly, hotels have to pay higher commission, sometimes as high 40% in the low season and 20 % in the high season. This is much higher than working with conventional tour operators and travel agencies. OTAs often undercut the prices of hotels. Therefore, even though the hotels have received more bookings, the average room rate from this segment is not as high as other segments (as mentioned by respondents that they prefer to have meeting groups). Sometimes OTAs offer promotions without advanced agreement with hotels. Some hotels stated that they preferred to work with tour operators because they are more reliable. Both hotels and tour operators usually have long term mutual relationships and loyalty. Some hotels prefer to sell to business groups or MICE groups as the rates are higher and it is easy to close sales. Others create their own packages or have special promotions to encourage clients to book their hotels directly.

About 35% of the respondents stated that they have had problems of no shows and short notice cancellations from working with OTAs, especially with those that did

not request advance deposits. Clients may find it easy to 'no show' or cancel bookings because some OTAs do not require advanced deposit. Therefore, clients do not have any financial obligations with the hotels. This creates a problem for the hotels and it is difficult to fill the rooms at the last minute. Some hotels misunderstood about the sources of bookings because some popular OTAs belong to the same companies (Barthel & Perret, 2015). Furthermore, sometimes the clients use fake credit cards. However, these problems have still not been solved.

The other major problem is that OTAs often use the wrong pictures that do not match the room prices on their websites (such as showing the pictures of deluxe rooms at the standard room rate). This problem leads to a lot of customer complaints and hotels have to offer complimentary meals or room upgrades as compensation.

Negative customer reviews are also one of the main problems of working with OTAs. Sometimes customers write negative reviews which can damage the hotel's reputation.

Working with OTAs also leads to several threats and operational problems. For hotels, it is difficult to build customer loyalty because customers do not communicate directly with the hotel. With a lot of

hotel information and rates available on OTA websites, clients can easily compare prices and facilities and then may choose other hotels for their next stay.

Lastly, working with OTAs depends greatly on the stability of the internet. If there is a problem with the internet connection, staff cannot access reservation information and this can cause service problems.

Conclusion

This research indicates that most independent hotels were found to be using OTAs as one of their distribution channels. However, it was found that only 55% of the respondents had their own booking engines to provide clients the convenience of making direct reservations, while 45% did not. As a result, most independent hotels are dependent on OTAs for room sales. Even though OTAs help increase their bookings and revenue, it is evident that the average room rates from this segment are lower than other segments due to the high commission required by OTAs. This is in line with Barthel and Perret (2015) and Gazzoli et al. (2008). In addition, they also encountered several other problems such as price cutting, rate disparity and no shows. Some of them are trying to find solutions to the problems while others are not. This research also found other problems relating to using OTAs by hotels

which have not been studied before such as no show problems, OTAs using wrong pictures, negative reviews, payment problems and other operational problems.

These findings provide some benefits to the hotel industry. In an academic sense, the results of this research are useful for further study on how to tackle the problems and can be used as a model for further empirical research on this issue. Finally, this research provides an experiential learning for the 'Hotel Sales Management's students. Their direct experience from conducting interviews with hotel managers on this issue provided them with a better understanding of the subject. This will prepare them for future careers after graduation.

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