



MODULE_3 MARKETING

Lesson_6_ *DISTRIBUTION CHANNELS*

CONTENT OVERVIEW

*How many and what are the distribution channels in the tourism sector?
How do these channels work?*

Any product or service reaches the consumer thanks to companies (called "intermediaries") that deal with distributing them: they are wholesalers, retailers, logistics and transport companies, etc.

The distribution channels are classified according to the number of intermediaries involved in the process: we speak of a direct channel when the good passes directly from the producer to the consumer (e.g. purchases of fruit and vegetables from the farmer), short when fruit and vegetables are purchased at the retailer who purchased them from the farmer, long when a wholesaler supplies the retailer etc.

In tourism, distribution channels are particularly important because they are the intermediaries to build the "travel" product which is composed of a series of by-products, if we may say so, supplied by many individual producers, large and small: transport, catering, events, attractions, tourist services etc. which often must be organized in packages that can be sold on the market (note: it always depends on the needs of the consumer: those who travel frequently for business reasons, for example, have their trusted suppliers and therefore do not need any intermediary or package).

The lesson briefly describes the types of distribution channels, the main intermediaries operating on the market to finally underline the importance of digital marketing, so important for tourism that some of the major intermediaries in the sector are "digital natives".

Tourism distribution channels

Generally speaking, there are three levels of intermediation in the tourism industry:

- **direct channel** (one level): as in the example above (from the farmer to the consumer) the supplier sells his service directly to the consumer: this is the case of the hotelier who sells the room to the customer who called him by phone;
- **short channel** (two levels): the supplier (the hotelier) sells the room to the customer through a travel agency;
- **long channel** (three levels): the supplier (the hotelier) sells to the customer the room included by a tour operator in a package sold by a travel agency.

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The direct channel (one level) is of course the simplest form of distribution as it does not provide for the presence of any intermediary between supplier and customer: the web makes it possible for any tourism service provider to interface directly with the buyer for booking and online purchase. For this reason, it is the preferred channel by both small and large companies (for example, airlines push travelers to purchase electronic tickets).

The short channel (two levels) provides for the presence of an intermediary, the travel agency (TA), that is the retail shop of the tourist industry as it sells to the traveler products and services provided by the supplier (the hotel, the airline, the manager of an attraction, the event organizer, etc.)

The long channel (three levels) provides for the presence of a third level of intermediation, the tour operators (TO) who increasingly carry out the work of creating, promoting and selling tourist packages in which many different services are supplied, provided by companies independent from each other.

Tourist intermediaries

- a) **travel agency** (TA). As above mentioned, the travel agency can be considered the retailer of the tourism sector: in fact it sells travels (by plane, train, bus etc.), hotel rooms and other accommodation facilities, tickets to enter tourist attractions (parks, monuments, shows etc.) etc. It often plays the role of "purchasing consultant" of the traveler because it helps the customer to choose the destination and to organize his trip. Its revenues are made up of the percentages it takes from the suppliers of the services sold (hotels, tour operators, transport companies, etc.) and its customers. Travel agencies can also act as incoming agencies, specializing in organizing travel to a given destination.
- b) **tour operator** (TO). If the travel agency is the retailer, the tour operator is the wholesaler of the tourism industry. TOs, on at least two times during the year, or six months before the summer and winter seasons, prepare their catalogs containing proposals for travel and stays in many locations (some TOs, as known, are specialized only in some sectors, such as cruising or travel to exotic places). The packages they develop can be sold either directly, through their electronic sales systems, or through travel agencies. In order to reduce the risk of the unsold (places in hotels and airplanes reserved at the time of the launch of the season - allotment), many TOs have become owners of hotel chains and practice price strategies aimed at anticipating, through discounts on the ordinary sale price, reservations to customers or at selling (so-called last-minute) rooms or trips to people willing to take a holiday in a place decided at the last moment often exactly on the basis to this kind of promotion. These simple observations make it clear that the work of TOs is very exposed to financial risks (the recent failure of the oldest TO in the world, Thomas Cook, was a recent example)
- c) other **minor intermediaries**:

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- a. the consolidators are companies specializing in the purchase of excess air capacity (unreserved seats) resold at discounted prices through the TAs;
- b. travels club: they are operators performing functions similar to those of the consolidators but only for the members of the clubs;
- c. event organizers: they are professionals hired by companies, associations, etc. to organize large events, usually attended by many hundreds of people, in venues specialized in the so-called congress tourism;
- d. specialty channelers, or operators specialized, for example, in the organization of business travel for employees of large companies

The web has played a fundamental role in revolutionizing the way travelers buy tourism products and services by inducing intermediaries and service providers, even the smallest ones such as tourist guides or owners of small b & b, to be present with their own website or in the portals of large online operators.

The most relevant phenomenon of the digital revolution are the **online travel agencies** (OTA) such as Booking, Expedia, Trivago, Kayak and many others that, in different ways, purchase rooms and / or seats on the plane by applying a markup to the hotel rate or air ticket, thus earning the difference between the price at which the customer buys and that paid by the OTA to the hotel / airline. The dominant market position acquired by the OTAs (now most of the world's bookings pass through them) has aroused the reaction of operators, especially the smaller ones, denouncing the contractual clauses not allowing them to offer a price lower than that advertised on the portal.

It is also worth mentioning that the OTAs did not make the physical TA disappear, which managed to re-position themselves on the market by increasing the amount of services offered to customers, or by becoming more and more consultants to travelers who want to be guided and accompanied in the organization of the trip of their dreams, and specializing as well more and more in the sale of TO products.

The **Global Distribution Systems** (GDS), among the best known Galileo and Amadeus, are telematic tools born before the web to allow airlines to promote ticket sales at travel agencies reducing inefficiencies and length of time for selling via telephone , fax etc. Given the success of the tool, the hotels then resorted to it. Today GDS are computerized booking systems operating as product catalogs for travel agencies and other distributors in hospitality and air travel sectors.

Among the tourist intermediaries we can include the companies of the so-called sharing economy, which are actually multinationals doing the ancient job of connecting a (self-employed) service provider and people who need that service. This is the case of Uber and, above all, Airbnb, or a digital platform in which there are countless homeowners willing to rent their accommodation to

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people who demand it for short periods. This mechanism has allowed, on the one hand, to expand the supply of low or very low cost housing but has created, on the other hand, situations of progressive rarefaction of houses for long term rent, especially in the historic centers of art cities, with the consequent expulsion of people (mostly younger) to the suburbs. In addition, Airbnb is co-responsible (with the low cost air companies) for the spread of the so-called fast tourism, that is made up of several short trips during the year (and that is the exact opposite of sustainable tourism), unfair competition towards hoteliers and widespread tax evasion (accusations that it shares with Uber regarding the taxi service) etc.

To conclude: the source of the revenues of the tourism intermediaries are the commissions paid by each intermediary to its supplier, or to the previous step of the distribution chain. The final price paid by the customer therefore includes all the commissions paid from one level to another.

Digital marketing

Some companies, such as OTAs and Airbnb, are, so to speak, digital natives in the sense that their business model was based from the outset on the use of exclusively digital tools for virtual intermediation between the provider of accommodation / travel services and client and on a widespread use of direct and digital marketing (although some have recently resorted to more traditional advertising media, such as radio and television).

Others have specialized not in the intermediation of services but in the dissemination of information and reviews on tourist destinations, hotels, restaurants etc. The best known site is TripAdvisor, but Booking.com itself (which is an OTA) gives the possibility to write reviews on the chosen hotels as well as Zomato, Yelp or OpenTable are specialized in catering.

The tools that can be used for digital marketing are numerous and are illustrated in slide 24: websites, social media, blogs, advertising on search engines, contextual advertising in articles or posts etc. If interested, it is recommended to deepen the use of these tools on specialized textbooks. The number of social media that can be used for digital marketing is high as well: in addition to the well-known Facebook, Instagram, Whatsapp and Youtube there are other very popular ones among Chinese consumers, such as Wechat, Renren, Weibo, TikTok, or the Russian Vk and Telegram.

Electronic word of mouth is increasingly used by consumers before deciding to buy any tourist product: they consult the reviews published on the sites mentioned above to read the opinion expressed by others who have used that product or service before them. However, it should always be remembered that: a) people generally publish a comment only if they are very satisfied or very dissatisfied; b) the risk of false reviews (whether positive or negative) is always very high; c) the judgment of people on the same experience can be very different, depending on their initial expectations.

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In conclusion

- in tourism industry there can be up to three different levels of intermediation
- the main operators in tourism industry are travel agencies and tour operators: while the former can be assimilated to retailers, tour operators perform the functions of wholesalers
- internet (and even more the web) has revolutionized tourism distribution
- digital born companies mainly use digital marketing

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