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Distribution channel in hospitality and tourism: Revisiting disintermediation from the perspectives of hotels and travel agencies

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Distribution channel in hospitality and tourism

Revisiting disintermediation from the perspectives of hotels and travel agencies

Distribution
channel in
hospitality
and tourism

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Abstract

Purpose – The purpose of this paper is to reexamine several issues about disintermediation from the perspectives of tourism product/service suppliers (hotels) and traditional intermediaries (travel agencies), considering the move of the current distribution landscape toward disintermediation. Internet and mobile technologies offer various tools for consumers to search and purchase products/services from suppliers directly. Consequently, the necessity and role of traditional intermediaries in the industry become questionable.

Design/methodology/approach – In all, six focus group interviews were conducted to collect primary data from ten managers of three traditional travel agencies and 11 managers from three business hotels in Hong Kong, which is a major travel destination in Asia with many world-class hotels and tourism facilities.

Findings – Despite their different business backgrounds, the interviewees agreed on the increasing importance of Internet technology in the distribution of tourism products. The interviewees also posited that traditional travel agencies are still needed to serve certain customer groups, albeit their role may have little importance.

Practical implications – Practitioners should adapt to technologically induced changes to remain competitive in the e-business era.

Originality/value – This paper provides several original contributions. First, this paper supplements the extant literature by revealing how modern practitioners perceive disintermediation in the tourism and hospitality industry. Second, this paper is the first to investigate the disintermediation issue from



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the perspectives of tourism product/service suppliers and intermediaries. Finally, this paper provides a reference for industry practitioners to establish adequate strategies that take advantage of Internet technology.

Keywords Hong Kong, Internet, Disintermediation, Distribution channel, Hotel, Travel agency

Paper type Research paper

Introduction

The growing popularity of business applications of the Internet has increased the number of people who use the technology to search for information and make purchases online. Lawton and Weaver (2009) stated that only 7 per cent of Internet users made online purchases in 2000, but this figure increased to 30 per cent in 2004. With the increasing number of Internet users and the great incursion of the Internet into the daily life of people (Internet World Stats, 2013), numerous academic and industry studies have noted the prevalence of online shopping in tourism and hospitality. Nielsen (2010) showed that in March 2010, 82 per cent of the 27,000 global Internet users surveyed intended to make an online purchase. In addition, 24 per cent of the surveyed respondents stated that they had purchased airline tickets and 17 per cent had made hotel/tour reservations online in 2009. PhoCusWright also estimated that online travel sales in the Asia Pacific region in 2013 and 2015 would grow to USD 93.4 billion and USD 126.6 billion, respectively (Tnooz, 2013).

Aside from desktop computers, mobile devices are heavily used by travelers to book travel products and services. In a survey with 1,531 Asia Pacific travelers, Amadeus (2013) reported that 40 per cent of business travelers and 25 per cent of leisure travelers from Asia Pacific countries used smartphones to book and make travel-related arrangements in August 2012. Considering the continuous growth in the adoption of mobile devices and the improvements in telecommunication infrastructure, eMarketer (2012) forecasted that the number of consumers in the USA who book travel-related products/services using smartphones and tablets would have a twofold increase from 16 million in 2012 to 36.7 million in 2016. In response to the huge potential market of electronic and mobile commerce, most tourism suppliers have established business Web sites and/or smartphone applications to publicize and distribute their products/services to consumers (Leung *et al.*, 2014; Liu and Law, 2013).

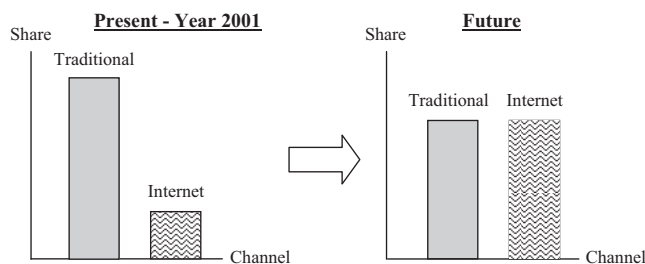
Given that Internet and mobile technologies enable consumers to acquire travel-related information and purchase core and ancillary tourism products from tourism suppliers directly (Morosan, 2014), some researchers have expressed their concern over the uncertain future of traditional intermediaries in the industry. Some scholars have even posited that the growing influence of these online technologies has resulted in a strong pressure toward disintermediation in the hospitality and tourism industries (Law *et al.*, 2004; Lawton and Weaver, 2009).

In their earlier study, Law and Lau (2004) examined the disintermediation issue from the perspective of hotel managers and showed that hotel managers do not expect complete disintermediation of travel agencies but do predict an increase in the share of direct business from their company Web sites. In another study, Law *et al.* (2004) investigated the view of customers and reported mixed results in terms of the potential disintermediation of travel agencies. According to their study, customers enjoy the convenience of looking for information on the Internet but still like the professional services provided by travel agencies. Considering that traditional intermediaries and

online technologies would coexist and supplement each other to serve customers to their greatest satisfaction, Law *et al.* (2004) concluded their study by presenting a diagram (Figure 1) of contemporary and future scenarios of bookings on both channels. In this paper, Figure 1 is modified slightly by changing the label of the vertical axis from “volume” to “share” to accurately reflect the current industry practice. “Traditional channel” represents the share of travel reservations generated from traditional travel agencies, such as offline travel agencies and tour operators who help distribute tourism products and/or services from suppliers to consumers. “Internet channel” refers to the share of travel reservations directly generated from the business Web sites of suppliers.

Significant findings and implications have been generated from the aforementioned studies. In 2010, one study examined the perception of practitioners toward disintermediation in tourism and hospitality (Kaewkitipong, 2010). However, subsequent research effort has been largely absent over the past few years. Thakran and Verma (2013) noted that the move of the current distribution landscape toward disintermediation results from suppliers being eager to distribute products/services via emerging online technologies, such as social media and mobile technologies. In view of the rapid changes in the business and technological environment, previous research findings may not accurately reflect the current situation because industry practitioners are likely to perceive and react to disintermediation differently. To provide an up-to-date view of how practitioners perceive disintermediation in the era of online consumerism, this study extends the previous research effort and reexamines several issues about disintermediation in tourism and hospitality. Kaewkitipong (2010) defined disintermediation as the idea of eliminating the middleman/mediator from the supplier–intermediary–consumer network. Although the business nature of traditional and online travel agencies (OTAs) (Hotels.com, Expedia.com, and Booking.com) is virtually identical, the definition of disintermediation is used in the current study because this study aims to extend the previous research effort on disintermediation. Therefore, the disintermediation discussed throughout this paper refers to the disengagement of traditional travel agencies (i.e. offline travel agencies and tour operators who help distribute tourism products and/or services from suppliers to consumers) from the supplier–intermediary–consumer network.

Considering that the perspectives of practitioners on the disintermediation issue are under-researched (Zhang *et al.*, 2009), this study focuses on the opinions of travel agencies and hoteliers. Practitioners in these two sectors are at different stages of the tourism supply chain but work closely with each other. However, distribution channel conflicts between them are also inevitable (Hills and Cairncross, 2011; Myung *et al.*,



Source: Adapted from Law *et al.* (2004)

Figure 1.
Transformation of the share of travel reservations

2009). To establish a comprehensive overview of the perspectives of practitioners toward the disintermediation issue, both of them should be involved. Using a qualitative approach of interviewing managers from hotels and traditional travel agencies in Hong Kong, this case study is expected to help practitioners better understand how hoteliers and traditional intermediaries in the field perceive disintermediation and what business strategies they have devised to help them remain competitive in the marketplace.

Literature review

The application of the Internet over the past few decades has been transforming the way that products and services are distributed to customers (Berne *et al.*, 2012). Tourism and hospitality are of no exception because the distribution evolution in the Internet era has consistently been highlighted as one of the most important issues across industries (Grønflaten, 2009; Kracht and Wang, 2010; Pearce and Schott, 2005). Under the traditional distribution model, travelers rely heavily on traditional intermediaries, such as travel agencies, to access the products provided by suppliers (e.g. hotels and airlines) via global distribution systems (GDS). Using the Internet, travelers can now directly access travel information and make their bookings via the Web sites of suppliers without going through the intermediaries (i.e. disintermediation) (Kaewkitipong, 2010). Various online intermediary models, such as OTAs, last-minute inventory distribution and flash sale Web sites, have recently emerged as another avenue for travelers to purchase tourism products/services.

Along with the proliferation of disintermediation in the tourism industry, debates on the existence of traditional travel agencies in the future are not scant (Law *et al.*, 2004). Hills and Cairncross (2011) noted that some scholars and practitioners are fairly pessimistic and predict that traditional travel agencies will disappear, whereas others maintain that traditional travel agencies will not be replaced. The dark future of traditional travel agencies is grounded in many arguments. The availability of travel information on the Internet eliminates the need for customers to be physically present in traditional travel agencies (Morosan and Jeong, 2008; Piccoli and Lloyd, 2010; Tse, 2003). The emergence of online search engines eases the search for travel information (Christodoulidou *et al.*, 2009; Kracht and Wang, 2010; Pan and Fesenmaier, 2006; Yacouel and Fleischer, 2012) by providing a convenient way for customers to retrieve a wide range of information in lightning pace without leaving their homes. In this regard, the online environment offers broader choices than the offline environment does (O'Connor, 2008) and empowers customers to make an informed purchase decision (Wang and Wang, 2010). Booking procedures are also not necessarily bound to the offline environment but can be fully completed online (Tse, 2003). Suppliers (e.g. hotels) tend to offer the lowest guaranteed rates and incentives, such as free wireless Internet connection, to their customers who make reservation via their Web sites (Carvell and Quan, 2008; Toh *et al.*, 2011b). This phenomenon may be due to the increasing bargaining power of OTAs (Christodoulidou *et al.*, 2010). In line with this argument, Grønflaten (2009) noted that a majority of online bookings for accommodation are made through OTAs, albeit the opposite is true in the booking of airline tickets. All these factors largely reduce the competitiveness of traditional travel agencies.

Nevertheless, the value of traditional travel agencies has been highlighted by many researchers. An irreversible characteristic of traditional intermediaries is the human interaction between customers and travel agencies (Buhalis and Licata, 2002;

Grønflaten, 2009). The need for interaction is particularly salient among certain customer segments, such as organized tour travelers, business travelers, people with low income, senior citizens, people with low educational level and customers who buy complex travel products and services, such as honeymoon packages (Del Chiappa, 2013; Grønflaten, 2009; Law and Wong, 2003). Law and Lau (2004) argued that the Internet cannot replace the professional knowledge of travel agencies, which is imperative for offering a travel product mix that effectively matches customer needs. Consumer concerns on online security, privacy and information overload also hinder the online presence of suppliers (Gilbert *et al.*, 2005; Law and Lau, 2004). Hence, traditional travel agencies are still indispensable partners from the point of view of customers.

Despite the existence of substantial literature pertinent to disintermediation in tourism and hospitality, two apparent research gaps are still identified. First, the recent literature about disintermediation in hospitality and tourism is overwhelmed by the perspectives of consumers (Del Chiappa, 2013; Grønflaten, 2009; Law, 2009; Morosan and Jeong, 2008; Toh *et al.*, 2011a; Wei *et al.*, 2010; Wen, 2009). Zhang *et al.* (2009) noted that scholarly attention on the perspectives of suppliers and intermediaries over disintermediation is limited. One study has recently found that traditional travel agencies view Internet technology as an opportunity rather than a threat because they think that customers would purchase from them after doing research on the Internet (Lawton and Weaver, 2009). Hung *et al.* (2011) found that the provision of online booking by a travel agency is forced by the similar practices of its competitors.

In the hotel context, the provision of online booking services by hoteliers relies on the demands of their customers and the stance of their top management (Theodosiou and Katsikea, 2012). Hotel characteristics also play certain roles because the adoption of online distribution channels is common among new hotels that feature a low occupancy rate and cater to the upper class (Dabas and Manaktola, 2007; Sahadev and Islam, 2005). Although numerous research efforts have been made to understand the views of practitioners on disintermediation, these works have been conducted prior to the emergence and prevalence of mobile technologies. Since 2010, the fast adoption of mobile technologies has significantly affected tourism and transformed the patterns of tourism consumption. Mobile technologies offer another avenue for tourism suppliers to promote, distribute and connect with their consumers (Morosan, 2014); thus, the reliance of traditional travel agencies on distribution is further diminished. Owing to the dramatic change in the distribution landscape, a reexamination of the perception of practitioners toward disintermediation is greatly needed.

Methodology

As mentioned earlier, this study extends the previous research effort and reexamines several issues about disintermediation in tourism and hospitality from the perspectives of practitioners. Survey is the most common data collection method among prior studies on disintermediation (Del Chiappa, 2013; Law and Lau, 2004). However, Yin (1984) noted that case study information can be solicited through in-depth interviews with key informants. Considering the resource constraints and the goal of gaining insightful information from the studied organizations, we deem a qualitative methodology as appropriate and, thus, use it in this case study.

In 2013 and 2014, email invitations to participate in the interviews were sent to different traditional travel agencies and hotels in Hong Kong using convenience and

snowball sampling approaches. After sending several reminders, three travel agencies and three hotels agreed to participate in the interviews. [Table I](#) provides an overview of the participating organizations.

Having reviewed the literature and conducted multiple rounds of discussions, the researchers developed six open-ended questions through which detailed insights from travel agencies and hotel managers into the disintermediation issue could be obtained. The questions are as follows:

- Q1. What are the major sources (such as geographic markets and trip purpose) and channels (such as online or offline channels and booking sources) of your business?
- Q2. How have Internet and mobile technologies changed your business mix?
- Q3. What changes have your company made to adapt to the prevalence of Internet and mobile technologies?
- Q4. How does the management of your company perceive the importance of adopting and investing in Internet and mobile technologies?
- Q5. How do you perceive the role of travel agencies in the hotel industry before and after the emergence of Internet and mobile technologies?
- Q6. With reference to [Figure 1](#) in [Law *et al.*'s \(2004\)](#) study (i.e. [Figure 1](#) in the current study), do you agree that the diagram reflects the current distribution of your booking sources?

How will this distribution evolve over the next 10 years? These questions were broad enough to enable interviewees to express their views freely while remaining within a focused scope. The authors acknowledged that personal bias may exist during the design of the interview questions. Nevertheless, the agreement from all authors who have extensive industry and/or research experience on the studied topic should minimize the possibility of subjectivity. These questions were sent to the informants prior to the interviews for them to prepare.

Six separate focus group interviews were conducted by the authors with the participating companies in mid-2013 and early 2014. Ten executives from three travel agencies participated in the interview. The participants included an Owner, General Manager, Managers of Package Operations and Tours, Assistant Manager/Manager of Outbound Travel, Managers of Group Operation, Account Manager and Accounting Manager. During the interviews with the hotel managers, an Accounting Manager, Heads of Sales and Marketing, Heads of Finance, Revenue Managers, IT Manager and eBusiness Manager participated and shared their thoughts on the questions listed above. Each group interview was conducted in Cantonese Chinese, which was supplemented with English (all interviewees and interviewers are bilingual speakers of both languages), and lasted for approximately 90 minutes.

To enhance the validity and trustworthiness of our qualitative research, especially in the realm of dependability, a set of procedures were strictly and consistently followed in the interview and data analysis stages ([Sinkovics *et al.*, 2008](#)). The interviews were tape-recorded with the permission of the participants to enable efficient communication and facilitation of post-interview analysis. Ethnographic content analysis was

Company name	Company background	Business model	Title of interviewees
Agency A (TaA)	Asia-based travel agency, established in 1967 with 47-year-old history. The office is a regional branch of a leading tourism intermediary in another Asian country, and its company size is medium, with approximately 100 employees	B2B and B2C	General Manager, Group Manager, Outbound Assistant Manager, Package Manager, Accounting Manager
Agency B (TaB)	Established in 1983 and has seven branches in Hong Kong and one branch in Macau. They are the member of a public-listed company. Their products include outbound overseas tour packages and local tour	B2C	Outbound Manager, Group Manager, Package Manager
Agency C (TaC)	Local independent travel agency, established in 1992, with 30 employees stationed in one office. They are one of the major hotel room wholesalers in Hong Kong	B2B	Owner, Account Manager
Hotel A (HA)	Established in 2010 under the affiliation of a local hotel chain. Featuring a total of 345 guestrooms, the hotel is located in one of the central business districts in Hong Kong and, thus, positions itself as a business hotel	Business hotel	Hotel Manager, Director of Sales
Hotel B (HB)	A local independent hotel established in 2011, which is located in Kowloon, with 262 guestrooms	Business hotel	Director of Finance and Administration, Director of Sales and Marketing, Revenue Manager, IT Manager, eBusiness Manager
Hotel C (HC)	Established in 1975 under the management of an international hotel chain. The hotel is located in a tourist shopping area in Kowloon, with 614 guestrooms	Business hotel	Director of Finance and Business Support, Chief Accountant, Director of Sales and Marketing, Revenue Manager

Table I.
Background
information of
participating
organizations

conducted, during which the authors independently reviewed the recorded messages to derive an agreement for the findings. In this way, personal bias was eliminated and validity was assured. The following section presents the findings.

Findings

Major source of business and booking channels

Travel agency. The Group Manager of Travel Agency A (TaA) stated that their major source of business comes from their country of origin, followed by Mainland China and others. Approximately 80 per cent of its portfolio comes from inbound travel, 15 per cent from outbound travel and the remainder from other tourism products, services and merchandizing. The business scope of their travel agency covers the business-to-customer (B2C) and business-to-business (B2B) markets. Outbound travelers are mainly corporate (60 per cent), with leisure accounting for 40 per cent. He attributed this phenomenon to two major factors. First, their customers emphasize the provision of quality service and, thus, prefer to visit the branches and make reservations physically to benefit from their attentive service. Second, the language barrier discourages customers from adopting online channels.

As suggested by the Package Manager, given that the majority of their customers are not from English-speaking countries, their customers tend to book through traditional travel agencies who speak the same language to guarantee the accuracy of their arrangements and minimize the risk of making incorrect bookings. The Group Manager further commented that some travelers are shy and afraid of interpersonal communication with outsiders. Hence, they prefer using the Internet to purchase tourism products and services. Travelers from countries where Internet penetration is high are also more likely to make online purchases.

By contrast, Travel Agency B (TaB) mainly serves leisure clients (90 per cent), the majority of which still use the traditional booking channels. Hong Kong is a small city with a convenient transportation network. Given that TaB has eight branches in Hong Kong and Macau, local residents can easily reach their branches to make inquiries and/or reservations. Their inbound clients, who are mainly from Mainland China, usually obtain information from their Web sites and then call their branch offices to confirm before making reservations. Travel Agency C (TaC) is a hotel room wholesaler, the clients of which are mainly from Asia, with 70 per cent originating from Mainland China. As a wholesaler, their clientele are sub-agents in Hong Kong and Mainland China. Over 70 per cent of their bookings are from leisure travelers.

Hotel. The major sources of business for the three hotels are similar; that is, 35 to 50 per cent of their clients are from Asia. However, their business mixes are different. Given that Hotel A (HA) is located in the central business district, approximately 60 per cent of their clients are from corporate organizations. In contrast, the proportions of corporate clients of Hotel B (HB) and Hotel C (HC) are only 20 and 30 per cent, respectively. Regarding the booking channels, only one-third of the clients of HA and HC book through online channels, whereas the ratio doubles for HB. One of the reasons for HB having a large portion of online clients is because HB is affiliated with an international hotel chain. Accordingly, their online exposure and visibility are high. Chain brand image may also affect the choices of clients when they book online. In sum, all the three hotels distribute rooms using approximately ten OTAs, including [Bookings.com](#), [Expedia.com](#), [Agoda.com](#) and [Travelocity.com](#).

Technology-driven change of business mix

Travel agency. In relation to the question of how Internet and mobile technologies have changed their business mix, the Outbound Manager of TaA stated that the effect of Internet technology on the business mix of their travel agency had not been significant at that time of the interview. Generally, less than 20 per cent of customers use online channels, including emails and business Web sites. However, the Internet has indeed enhanced the capability of the company to provide a back-up service to customers. Previously, travel agencies could only arrange or modify the travel plans of customers in the office where their data line is physically installed. With the Internet, their staff can now arrange the plans of customers anywhere and at any time. Although the effect of Internet technology on the business of TaA was not significant at the time of the interview, the Outbound Manager predicted that this effect would change.

The Outbound Managers of TaA and TaB also stated that most airlines have established business Web sites with online reservation functions. Customers can book their airline tickets directly without contacting travel agencies. Therefore, only a few customers would rely on travel agencies, and the phenomenon of disintermediation would shortly become apparent in the air ticketing sector. According to the Outbound Manager of TaA, some outbound travelers had urged the travel agency to provide an Internet platform for them to manage their own travel plans. All interviewees agreed that the effect of disintermediation on travel agencies would increase if many suppliers would introduce their own online reservation functions. The Package Manager of TaA further commented that customers are more willing to use online channels to reserve *ad hoc* travel activities and short trips. However, many customers prefer to seek help from travel agencies for package tours and long journeys. In sum, the use of online channels to purchase tourism products and services shows an increasing trend, but such progress varies depending on the market segment.

The Outbound Manager of TaB mentioned that the Web site of their company, which was, first, launched in 2000 and revamped in 2014, did not generate significant bookings as expected, especially for local and group tours targeted at local residents. The Outbound Manager commented that this phenomenon could be due to the existence of many branch offices and the convenient transportation system in Hong Kong. These conditions allow local residents to visit the travel agency with ease and book directly at their counters.

The Owner of TaC commented that their business mix had not been affected because their major clientele comprises retail travel agencies (sub-agents). Given that they mainly focus on the sub-agents located in Hong Kong and Mainland China, OTAs did not play an important role in their distribution channels. Moreover, room rates from OTAs were too high; hence, none of their sub-agents booked via these online intermediaries.

Hotel. Before the Internet became one of the major booking channels of the participating hotels, their corporate clients generated a higher average room rate than the travel agents did. Hotels have exerted great effort, including the provision of a large number of corporate salespersons and incentive programs, to attract and retain corporate clients. However, with the popularity of online channels, the business generated from OTAs and hotel Web sites has increased significantly. As for the participating hotels, their average room rates and business volume had increased steadily, although the commission rates paid to OTAs were relatively higher (10-15 per

cent) than those paid to traditional travel agents (5-10 per cent). Their management was accordingly happy with the proportional increase in this market mix.

Given that most customers of HA are business travelers who primarily rely on offline channels (e.g. hotel salesperson, phone and fax), the Hotel Manager suggested that Internet technology serves different purposes, such as providing information about hotel facilities and features as well as reaching and influencing potential consumers. The Head of Sales also stated that hotel location affects the use of online channels by customers and the size of a reservations team. For instance, the latter would remain unchanged for hotels in business districts because corporate travelers are the major source of business, and these customers tend to choose traditional ways for booking rooms. For hotels in non-business districts, the size of reservations teams could be reduced because leisure travelers are highly likely to choose online booking channels, given that many of them believe that such platforms enable them to take advantage of low prices.

The Director of Sales and Marketing of HB, which is an independent hotel, indicated that they heavily rely on online channels because they do not have strong financial and technical support like hotel chains do. During the hotel opening period, approximately 55 per cent of their bookings were from online channels, and only 5 per cent of the bookings were generated from their hotel Web site. After three years, the ratio of online booking increased from 65 per cent to 70 per cent, with 35 per cent generated from their hotel Web site. Their head of finance stated that this increase is a good sign because they can save a considerable amount of commissions needed to pay OTAs.

HC has been operating for almost 40 years. Their Chief Accountant indicated that their hotel chain has been using a central reservation system (CRS) for more than 30 years. This platform allows hotel employees to make instant reservations for their clients within the chain. In the past 10 years, the system has been enhanced further to allow many OTA Web site servers to directly retrieve room rates and availability via the CRS. This technique can reduce the manpower requirements needed to upload data onto the individual Web sites of OTAs. The Revenue Manager also pointed out that their online business in 2011 was approximately 20 per cent but has recently increased to 35 per cent. The business from OTAs has also increased significantly, particularly in terms of average room rate, whereas the proportion of local travel agent and tour group business has declined.

Adapting to the prevalence of Internet and mobile technologies

Travel agency. In response to the question regarding the changes that the company has made to adapt to the prevalence of Internet and mobile technologies, all three travel agencies stated that they have company Web sites and Facebook pages to display promotional materials. The informants of TaA explained that their company had started their Web site rather late. The first version of its Web site was established in 2004, purely to disseminate information. The Web site was then revamped in 2008 and currently allows customers to make online reservations. According to the General Manager, the conservative organizational culture of the headquarters was the main reason for the late introduction of online services. The management has the tendency to postpone the adoption of a new technology until it has been well-developed because they have a low risk tolerance. The Group Manager added that the headquarters does not want to adopt a new technology for use in Hong Kong because many travelers to/from

Hong Kong do not require technologically assisted services. Both, the General Manager and the Outbound Manager felt that the conservative organizational culture of the management caused them to lag behind their competitors.

Despite their late establishment of a business Web site, the General Manager noted that a large body of travel-related destination information is now available on their Web site. They sought to utilize diversified ways of promoting destination information to potential customers and encouraging clients to purchase from their Web site. The Package Manager and the Group Manager added that their staff members regularly visit restaurants in Hong Kong, take photos, share menu and transportation information and upload such information to their Web site to attract visitors to the city. Selling hotel accommodations and tour packages through group-buying Web sites (such as Groupon.com) has become increasingly popular, especially for selling short-haul trips. The Package Manager of TaB indicated that his firm used the company Web site, Facebook and Yahoo Travel to promote their travel products. At the time of the interview, TaB had started to sell discounted tour packages via Yahoo Group Buy and subsequently received positive responses from local residents, especially with regard to the local tours and short-haul trips. He also indicated that their Web site for mobile technologies will be revamped because of the poor user interface design.

The Account Manager of TaC received many comments from sub-agents and learned that their current business model (i.e. sending out room rate sheets in Excel file via email and then making hotel reservations through phone or email) was ineffective because of the waiting time (about 20 minutes to 1 hour) needed for the TaC staff to manually reply. In some difficult cases, a booking may take more than one day to confirm. To speed up the booking process, TaC is now developing a new B2B platform that will allow real-time access to all room rates and availabilities and offer instant booking confirmation.

Hotel. The interviewees from the participating hotels agreed on the importance of the Internet in marketing. Aside from hotel Web sites, Facebook is heavily involved in product promotion. In response to the increasing number of users who rely on mobile phones as a communication center, all participating hotels have developed mobile Web sites/applications to stay connected with their customers. To cater to their eMarketing needs, all hotels have hired social media/eCommerce managers who would handle online promotion through different channels. HA has been active in responding to the prevalence of Internet technology. The Web site of HA was designed to be consistent with the trendy and hip image of the hotel. Thus, the Web site uses Flash instead of Hypertext Markup Language to provide a lively and attractive online experience for Web site visitors. Given the emerging trend of online booking platforms for corporate customers, the hotel plans to offer this feature soon. Additionally, the mobile Web site of the hotel has recently been redeveloped and revamped. The latest version of the mobile Web site features an enhanced functionality of allowing customers to make online reservations.

The hotels have also been active in social media. HA publicizes events and promotions through renowned social media platforms, such as Facebook, Twitter and Weibo (the most popular social media Web site in China). The Hotel Manager commented that they sometimes invite third-party bloggers to write articles that promote the hotel. Aside from overseeing the hotel-owned channels, HA needs to spend time managing their OTAs by providing updated rates and descriptions, given that

some OTAs use mobile applications as booking platforms. The hotel has recently started to collaborate with a Web site that deals with last-minute offers, with the goal of generating a large business volume. Finally, they have recently hired an agent to manage room rates for different online channels. Nevertheless, their rates must still be monitored and manually updated on all the channels that do not subscribe to that agent.

All the interviewees from HB commented that the role of the Internet is important and that with the increasing number of online bookings, the job description of their hotel employees has also changed. Given that bookings from third-party Web sites allow advance payment to the hotel, the role of the Credit Manager has transformed into that of a trainer for the junior staff. In addition, the public relations department heavily uses social media and Web sites with user-generated content such as TripAdvisor. The respondents from HB also predicted that the functions of the sales team, reservations team and public relations department will merge and that the role of the corporate sales department would gradually diminish. In such a case, a job interviewee without any skill and experience in electronic marketing would not appear as a competent sales person. HB has recently opened two new positions:

- (1) an eCommerce Manager who would manage the business from OTAs and information on third-party Web sites; and
- (2) an eBusiness Manager who would handle social media marketing and search engine optimization.

He also pointed out that HB is attempting to encourage online customers to book through their Web site. To achieve this goal, HB has strengthened its Google ranking by purchasing keywords and specific keywords for niche markets. This approach is considered the best way to achieve multiple goals because it not only reduces the dependence on OTA and the commission rate paid to OTAs but also increases the visibility of the hotel Web site on Google search engine result pages.

With a strong technological support from the corporate office, HC did not put too much effort on OTA interconnectivity because its CRS already handles most of the communication. To maintain the brand image, several hotels of the same hotel chain have collaborated and agreed to hire an eCommerce Manager to handle online promotion among all their hotels in Hong Kong. The Revenue Manager also pointed out that their hotel has developed mobile apps for food and beverage promotion and advance check-in. However, the usage rate at the time of the interview had been lower than expected.

Management's perception of the importance of adopting and investing in Internet and mobile technologies

Travel agency. The General Manager of TaA stated that because their office is the regional branch of the company, they must first seek the approval of the headquarters before they adopt or invest in new technologies. Unfortunately, the top management is conservative and cautious in the adoption of Internet technology. While the TaA was not active in embracing Internet technology, the Outbound Manager commented that travel agencies in Hong Kong are generally eager to use Internet technology for promotion and distribution. Managers of many travel agencies in the city have recognized the increasing customer demand for online platforms and are, thus, willing to invest in developing online platforms. The same

is especially true for travel agencies acquired by foreign companies. The Package Manager of TaB pointed out that their management was positive toward the adoption of new technology. However, the management required the calculation of the rate of return on every investment, which is sometimes difficult to justify. The owner of TaC agreed that Internet applications could help hasten the booking process and increase the service standard. At the time of the interview, TaC was set to launch its B2B platform by mid-August 2014.

Hotel. All interviewees from the participating hotels agreed that their hotel management recognize Internet and mobile technologies as platforms for increasing customer awareness on hotel properties and reaching potential guests at a low distribution cost. The Hotel Manager of HA mentioned that the hotel management continuously reviews the effectiveness of the company Web site and invests in an online tracking system. Given that positive comments and reviews on social media sites (such as TripAdvisor.com) can easily and quickly be accessed by the general public, the hotel management regards electronic word-of-mouth (eWOM) as a powerful promotional tool. eWOM has not only helped the hotel enhance its brand awareness but also enabled managers to understand their clients clearly through review postings. With respect to the comments received on review Web sites, both HA informants described their continuous monitoring, evaluation and response to those comments. Although the participating hotel embraces Internet technology actively, the Hotel Manager commented that the management style is always closely related to the adoption of, and investment in, online channels. For instance, while their major market is corporate customers who used to book via traditional channels (such as telephone and fax), their top management would not make a large investment in pushing customers to book through online channels.

The Director of Sales and Marketing of HB emphasized the international background of online channels that results in a distribution network that is larger than a local one. Independent hotels like HB do not have enough resources to build an international network. Moreover, OTAs provide a “fair” competition platform for all hotels. The comments on TripAdvisor could directly affect hotel image. Hence, this platform is treated as an important marketing tool. In the survey of HB, 50 per cent of their customers read reviews before they book. The Head of Finance indicated that the role of their sales department was not as important as in previous years because they no longer needed to spend much time in managing their relationship with corporate clients and travel agents. The size of the department will be reduced soon. However, the role of a Revenue Manager has increased because he/she can help monitor the change in room rate and room inventory.

The Revenue Manager and the Director of Sales and Marketing from HC mentioned that the corporate office of HC has spent a huge amount of money in technology. They have created a team focused on social media, Web marketing and search engine optimization on room promotion. However, each hotel must be responsible for food and beverage promotion because of the different characteristics and target clients of each food and beverage outlet. Thus, promoting the outlets via the corporate office is difficult. The Revenue Manager also explained that after their initial introduction of OTAs as a marketing channel, the hotel owner questioned the high commission rate. However, when the Owner became aware of the high business volume and revenue generated via OTA, he no longer questioned the arrangement.

Perceptions toward the changing role of travel agencies in the era of Internet and mobile technologies

Travel agency. When asked about the role of travel agencies, the managers of the participating travel agencies agreed that the Internet has changed their role in the travel industry. Prior to the Internet era, travel information was limited, and customers could only depend on travel agents or directly contact overseas organizations via phone for travel arrangements. However, the communication cost of information search and reservation could be very high. Regarding the relationship of travel agencies with hotels, the respondents all believed that hotels still rely on travel agencies for the promotion and selling of hotel rooms, especially during non-peak seasons. However, their profit margin is reduced because of price transparency on the Internet. The Outbound Manager of TaA stated that because the advancement of Internet technology makes the arrangement or modification of customers' travel plans relatively easy for a travel agency, his role as a back-up agency that helps travelers arrange their trips has been strengthened. He added that in his own experience, many travel agencies in Hong Kong believe that the sector is a "sunset" (that is, declining) field. Some suppliers (e.g. hotels and airlines) today even provide the lowest rates on their own Web sites instead of on other platforms. Price-sensitive customers may then be encouraged to book through the platforms of the suppliers. In this case, the role of intermediaries has little importance. Given that suppliers can directly sell products and services to customers, the Outbound Manager stated that the decreasing percentage of commission paid to travel agencies threatens the sustainability of their business.

The Package Manager commented that in the past, packaged tours were all inclusive, encompassing arrangements for airline tickets, accommodation, meals, transportation and other activities. Customers had little information about each item. Nowadays, customers can search all trip-related information on the Internet, and customers themselves can customize their trips. Therefore, travel agencies must create new products to cater to customer needs. As the price and features of products and services become considerably transparent, customers can negotiate with travel agencies using the information acquired online. Hence, travel agencies can no longer add a mark-up to their prices. In terms of hotel room distribution, the Group Manager commented that selling and distributing rooms to customers has become significantly difficult because the hotels themselves can also sell and distribute rooms at a lower cost through the hotel-owned online channels.

The Package Manager of TaB believed that their relationship with hotels did not change before and after the prevalence of Internet and mobile technologies. Hotels still provided them the contract rate, which was lower than that of OTAs and hotel Web sites. Thus, price-sensitive customers could get a lower room rate from TaB. Several unique products such as the harbor cruise and fireworks dinner cruise, which were exclusively offered by TaB, would allow the agency to sell in a less competitive environment.

The Account Manager of TaC was unaware of any unusual changes in their business volume in the Internet era. They still received a low contract room rate from hotels, and their business volume grew steadily.

Hotel. The interviewees from the participating hotels indicated that before Internet technology became popular, hotels heavily relied on travel agencies to promote and distribute their rooms. Travel agencies had a high bargaining power when negotiating

the selling price with hotels. Moreover, customers relied on the professional knowledge and information provided by travel agencies when making travel arrangements. Today, price structure and travel information have become transparent. Hotels can now play an active role in marketing and promotion. Given that travel-related information can now be easily found on the Internet, the reliance on travel agencies has declined.

The Hotel Manager of HA admitted that more travelers now prefer independent travels to packaged tours. Thus, travel agencies may find themselves being phased out, except for those with an excellent relationship with customers, significant technological knowledge and a wide network. The Director of Finance of HB added that hotels now have more power and freedom to decide on which promotional materials to be presented to their customers for a uniform message delivery. The Revenue Manager of HC illustrated that young travelers strongly depend on the Internet to obtain travel information, which they use to arrange their own travel plans. Hence, the dependence on travel agencies diminishes.

Applicability of Figure 1 to the present and the future

Travel agency. The respondents were asked to comment on the applicability of Figure 1 on the current distribution of their booking sources. The Outbound Manager of TaA stated that about 15 to 20 per cent of their business at the time of the interview came from online channels; they expected this value to increase to 50 per cent. Depending on the nature of the business, such change would occur slowly. For the travel agency sector in Hong Kong as a whole, online and offline distribution channels currently have almost the same share (i.e. 50 per cent each). However, 75 per cent of the market share will likely be acquired by online channels in the future. The Group Manager of TaB mentioned that local residents prefer to visit their branch offices to make bookings and that inbound and outbound tour groups normally require special arrangements, a flexibility that could not be provided by online channels. Hence, the proportion of online bookings may not reach 50 per cent in the near future.

As a wholesaler, the owner of TaC predicted that after the implementation of their new B2C platform, most of their sub-agents will utilize the system to search for information and make bookings. The owner expected that more than 50 per cent of their bookings will be generated from this platform. The owner believed that technology can dominate the market. In addition, all the informants thought that completely eliminating bookings from traditional travel agencies would be impossible because certain types of customer service simply cannot be replaced by technologies. For instance, older people are likely to rely on the personal service provided by travel agencies. However, small-sized travel agencies (i.e. those with three to four employees) are at risk of closing down or acquiring by large travel agencies.

Hotel. The hotel informants agreed that the original Figure 1 represented their current reservations situation, with about two-thirds of their customers booking through traditional channels (including telephone, fax and traditional travel agencies) and the remainder booking online (such as GDS, hotel Web sites and OTAs). Both informants from HA believed that 60 per cent of their customers would book through online channels in the future, with the remainder sticking to the traditional routes. In addition, the informants thought that the increase in the use of online channels would mostly come from corporate customers and that standalone or independent, boutique,

small, new and relatively inexpensive hotels would have the greatest increase in sales through this route.

The eBusiness Manager of HB predicted that hotels focused on tour groups could hardly reach 50 per cent, given that tour groups require flexibility, which an online system could not completely provide. However, for hotels not focused on tour groups, more than 75 per cent of their bookings will come from online channels. Newly opened hotels will be much eager to implement cutting-edge technology to attract business. Existing hotels may need to sacrifice certain traditional channels or market segments to expand the online markets. However, the management of such hotels might see this approach as a risk. The Revenue Manager of HB noted that the corporate business market will remain stable but that traditional travel agencies will be phased out or converted into OTAs in the future. Similarly, the Revenue Manager of HC stated that their online business will reach and remain at 50 per cent in the near future because their corporate business, which still plays an important role in HC, requires quality service from salespersons that cannot be replaced by technologies.

Discussion and implications

The findings of this study suggest that the role of distribution has been gradually changing from human- to technology-based intermediaries. Although the changes are not yet drastic, all stakeholders will have to deal with them. Many suppliers have introduced their own online reservation services and functions, which they continuously develop. These changes will speed up disintermediation in the hospitality and tourism industries.

At present, hotels mainly sell products and services via their own Web sites, but they still rely on travel agencies to distribute their rooms (Toh *et al.*, 2011b). Hoteliers could, and probably should, strengthen sales on their own channels by maintaining a lowest-rate guarantee, making their Web sites easy for search engines to find, and analyzing customer data to provide personalized products. As such, values are added to their existing services. Hotels should also strengthen their relationships with customers upon check-in and after check-out. Offering incentives could be one of the ways to encourage the customers to book through the hotel-owned Web site for future visits. Many hotel Web sites now offer very competitive room rates. As such, the ratio of direct bookings is likely to increase. In this way, hotels can maintain a direct relationship with customers while saving on commissions paid to OTAs.

Early studies have found that travelers tend to make reservations via traditional travel agencies rather than the online channels (Law *et al.*, 2004; Pearce and Schott, 2005). In line with recent research (Toh *et al.*, 2011a), the present study found that the proportion of online and offline travel bookings is evenly distributed. A further declining role of traditional travel agencies seems plausible (Law, 2009; Lawton and Weaver, 2009). In particular, Lawton and Weaver (2009, p. 76) found that the public negatively perceives traditional travel agencies as the main threat, indicating that “our biggest challenge, really, is the perception that there is not any value in using a travel agency”.

As indicated by the findings of this study and the hypothesis of Law *et al.* (2004) large-scale mergers of small-scale travel agencies and hotels are highly possible. This condition is the natural outcome of globalization that enables companies to benefit from economies of scale. With regard to the present and future changes, travel agencies

should not be resistant to and regard the Internet as a threat. Instead, travel agencies should consider the Internet as a new channel that provides new business opportunities and adds value to existing services. As demonstrated by the participating travel agencies, travel agencies can minimize the risk of disintermediation by identifying and focusing on the niche market (Almunawar *et al.*, 2013), adopting a new distribution strategy (Huang *et al.*, 2009), improving online marketing and implementing reputation management through the Internet. The major challenge is how travel agencies would respond (or react) to changes that may lead to further disintermediation.

Suppliers such as hotels should also be prepared to diversify the distribution channels of their own products. Huang *et al.* (2009) emphasized the importance of having multiple channels. Similarly, Law *et al.* (2007) advocated the need for hotels to distribute rooms through direct and indirect online channels, each of which operates under different business models. Only through the strategic use of such channels that hotels can obtain greater, if not maximum, control over their room rates. As suggested by Inversini and Masiero (2014), hotels can utilize OTAs to increase their visibility while leveraging on social media communication and innovative forms of booking technology to facilitate the selling of their rooms through hotel-owned booking engines.

An interesting and somewhat unexpected point to note is that during the interviews, the informants rarely mentioned mobile technology, albeit the term was used in the questionnaire sent out before the interviews. Only the participants of one hotel mentioned a hotel-owned mobile app, but the usage was low. This result suggests that this type of technology is still rarely used by these businesses and is not popular among the local travel agencies and hotels. However, smartphones and the modern life are inseparable nowadays. According to a recent study conducted by Google, Hong Kong residents use smartphones to access the Internet at a rate of 96 per cent, which is the highest in the Asia-Pacific region, followed by Japan (94 per cent) and Singapore (93 per cent). Moreover, 66 per cent of smartphone users in Hong Kong utilize their devices to search for restaurant information, while 56 per cent use their devices to search for travel information (Metro, 2013).

Apparently, a gap exists between the available mobile technology and the adoption of the technology by tourism industry practitioners, the latter may be something that travel agencies in particular can consider to reduce the speed of disintermediation. Schmidt-Rauch and Schwabe (2014) suggested that traditional travel agencies may complement their traditional roles in travel counseling with the adoption of mobile technology by offering mobile services that continuously support travelers during their trips. By doing so, travel agencies will play an important role in the co-creation of value for their customers' travel experience before and during the trip.

The most popular technology terms, which all informants referred to, are *Web site* and *social media*. A successful social media strategy should thus engage users and make use of peer influential power (Leung *et al.*, 2013). Even with social media existing for a decade, all informants indicated that they mainly use social media to broadcast promotional materials on a personal basis. However, none of the participating organizations use social media as a company strategy. In the hotels with social media managers, the managers mainly responded to the review comments from TripAdvisor instead of on Facebook. In other words, the approach is still limited in terms of coverage. In view of the growing popularity of using social media for information sharing and

Conclusions and future research

The main contribution of this study is the provision of the latest managerial perspectives on disintermediation in the hospitality and tourism industries. A positive signal is that industry practitioners are already aware of the trend toward disintermediation and are actively coping with the changes. The increasing use of Internet applications inevitably means that more consumers will make online bookings. At present, most, if not all, of the services provided by travel agencies can be found on the Internet. Thus, travel agencies have no choice but to integrate Internet technology into their daily operations and strategies to remain competitive. A pragmatic approach would be to take advantage of the Internet and treat it as an opportunity instead of a threat. In other words, intermediaries and suppliers should be ready for technologically induced changes in different hospitality and tourism sectors. Only those businesses that use such technologies correctly and establish the right e-business strategy will remain competitive.

Despite the increasing use of Internet and mobile technologies for booking purposes, some customers will still continue to rely on travel agencies to make reservations and purchase-related products and services. This condition can be attributed to cultural, demographic and regional differences. Technologies simply cannot replace the personal service offered by human beings. Additionally, some, if not many, of the current technological limitations will remain a concern in the years to come. Thus, certain groups of customers will still seek the professional service of travel agencies but will expect such agencies to shift from making bookings to providing advice on travel planning. [Kaewkitipong \(2010\)](#) claimed that travel agencies should respond positively to the potential threat of disintermediation.

Although both traditional travel agencies and the Internet (including business Web sites and other online channels that are owned and managed by suppliers) are equally important at present and have equal shares, the role of the former will inevitably decline because of the benefits of online channels. [Figure 2](#) illustrates the market share of online and traditional channels in the past, present and future. Nevertheless, both channels must exist and complement each other to provide the best and most satisfying services to customers.

The findings of the present study shed light on the issue of disintermediation in the tourism and hospitality industries. Still, the study does have limitations, which may not

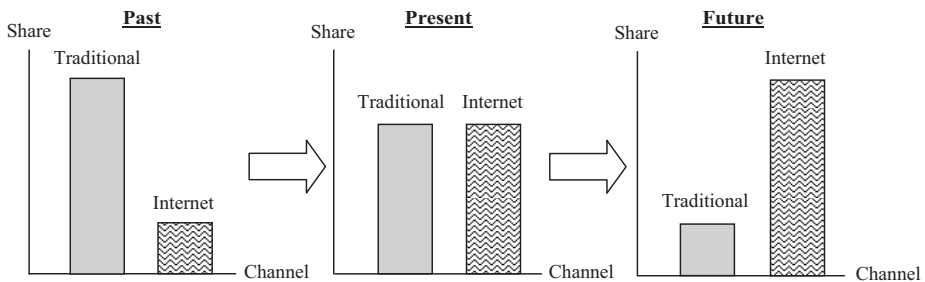


Figure 2. Transformation of the share of hotel and travel reservations (past, present and future)

allow us to draw any generalized conclusions. First, a limited number of respondents were involved, and they worked in specific business types. Future studies could enlarge the involved cases and recruit more respondents from a wider variety of business backgrounds. Second, with the ongoing development of Internet and mobile technologies, more tools for planning, arranging and purchasing travel-related products will be available for consumers and practitioners. Thus, longitudinal studies can be conducted to examine the effect of these technologies on the role of travel agencies from different perspectives. Another potential research direction is the conduct of a large-scale survey to understand the perceptions of consumers because their views and demands ultimately dictate the scale of disintermediation. As indicated by the findings of this study, Figure 1 appears to make a reasonably good prediction for the shares of booking channels. A future study could examine the accuracy of the prediction summarized in Figure 2 after a decade.

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