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Transactional and Psychological Concerns of all Parties involved in Opaque Hotel Room Distribution

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Purpose: The purpose of this paper is to understand various challenges faced by the hotel suppliers, intermediates and consumers while transacting for hotel room distribution through opaque websites. Further the paper tries to identify possible mitigation strategies they could adopt.

Design/methodology/approach: The paper outlines various transactional and psychological concerns of all the parties involved in opaque hotel room distribution and explores current and future mitigation strategies adopted by them.

Findings: The research identify several key challenges and suggest various possible mitigation strategies they could adopt more pertinent to transactional and behavioral concerns of the hotel room suppliers, intermediates and consumers face while transacting for opaque hotel rooms.

Research limitations/implications: The descriptive research on the behavioral aspects the three parties involved i.e. suppliers, intermediates and consumers while transacting for hotel room sales may be generalized to all of them but individuals may have very different attitude, interest, and opinion about distribution of hotel room through opaque websites.

Practical implications: Hotel operators, hotel opaque website companies can considers and evaluate various consumer behavioral hurdles discussed in the article can help them to formulate appropriate strategies to overcome them and win confidence of consumer and gain their market share.

Originality/value: The paper provides insight of various transactional challenges faced by hotel suppliers, opaque intermediates and consumers while transacting through opaque websites. The study could provide valuable inputs to hotel operators, opaque intermediates to formulate strategies to refine and strengthen their electronic distribution of hotel rooms.

Abstract: This article is based on the descriptive research the authors have undertaken to describe marketing problems, situations, market conditions, market potentials, and attitudes of suppliers, intermediate sellers and consumers' response for the sale of hotel rooms through the electronic channel of opaque websites.

Keywords: opaque website; electronic distribution; hotels; rooms; booking;

1. INTRODUCTION

With the exponential growth of internet services, the consumer buying behavior has changed dramatically. Consumer have become more dependent on internet for product and price comparisons, convenience, speed of purchase transaction, and trust (Law, Chan, & Goh, 2007).

With the advancement and popularity of electronic distribution, now more and more consumer are preferring to book hotel rooms online themselves without using any brick and mortar travel agent or physical intermediates (Yi, Liu, & Xiong, 2007). Further with the advancement of electronic distribution, opaque websites are playing a significant role in hotel room distribution. Thakran & Verma (2013) summarized digital eras, right from GDS to Hybrid period through internet period.

In general opaque websites are online channels that has the uniqueness to hide hotel information until the consumer has finalized the purchase (Kang, Brewer, & Baloglu, 2007). But booking policies, methods and procedures, consumer involvement are very different among different opaque websites. There are two major distinct set of opaque used in hotel opaque websites. Those are hotel brand opaque and hotel price opaque websites. The hotel brand opaque website displays the price of available room inventory upfront and protects rates by not showing the name or location of the hotel property until the customers have made a non-refundable purchase transaction. Kang et al. (2007) in their research article discussed another set of price opaque websites display the names of the supplier but the price is kept hidden in the bundled offerings of associated services. While transacting through opaque websites consumer either does not know the hotel property name until he makes the payment or the consumer does not know the right price he should bid for a hotel property of which the name is known to him. In hotel opaque situation when the consumer does not know the hotel property name, he has some idea about the general location or geographical area it belongs to where many other similar hotel properties are located. In the price opaque situation when the consumer knows the hotel property name he has some idea about the price range within which he should bid. While transacting through opaque websites consumers need to be flexible about their dates of stay, length of their stay, various particulars of facilities and services of their desired hotels.

Another set of opaque websites offer very different opaque model which can also occur in an auction or bidding and even counter - bidding situation. The opaque websites set a secret reserve price and to win the auction the buyer bid against this reserve price. In their research article (Hinz & Spann, 2010) described if the bid is equal or higher than the reserve price then the buyer win the bid and the opaque website reveal the details with the confirmation of booking for hotel room only after the consumer makes payment through credit card or debit card which is non-refundable. Now several new opaque websites have developed and are also developing several new innovative variants to it.

Gursoy, (2010) observed that slowly the traditional transparent hotel rooms availability and selling is moving towards opaque inventory controlling and selling to optimize revenue. Jerath, Netessine, &

Veeraraghavan (2010) have observed that direct last-minute sales are preferred over selling through an opaque intermediary when consumer evaluations for travel are high and/or there is little service differentiation between competing service providers; otherwise, opaque selling dominates. Jiang (2007) observed that when customers are heterogeneous, online opaque selling increases social welfare where with homogeneous customer set the cumulative social welfare decreases.

2. SUPPLIERS

Hotel organizations opt for opaque room selling for several strategic reasons. To dispose unsold room inventory hotels often adopt last-minute discounted sales strategy in their transparent sales channel. In the short term last-minute discount sales strategy may generate temporary incremental revenues but in long-term such discounted sales strategy may potentially reduce revenues for the hotel property because it may lead to a situation where more and more regular consumers may anticipate the discount and may delay their purchase rather than buy at the hotels standard rate (Courty & Liu, 2013). To mitigate such behavior many hotel operators are opting opaque intermediaries where the buyer cannot fully predict the ultimate hotel. The traditional segmentation strategies have been replaced by the segmentation based on segment demand (Cossa, 2013).

Opaque websites may erode brand equity and control hotel's pricing decisions but to sell their distressed inventories many hotel suppliers are treating opaque websites as their channel partners and not as their competitors. Opaque websites sell excess inventory of hotel rooms directly to consumers.

In a way opaque websites provide hotels a sales strategy as the hotel organisations seek to continually lower their distribution costs. Opaque Web sites undoubtedly help hotels unload inventory that would have remained unsold, without cannibalizing existing distribution and retail sales channels (McGee, 2003).

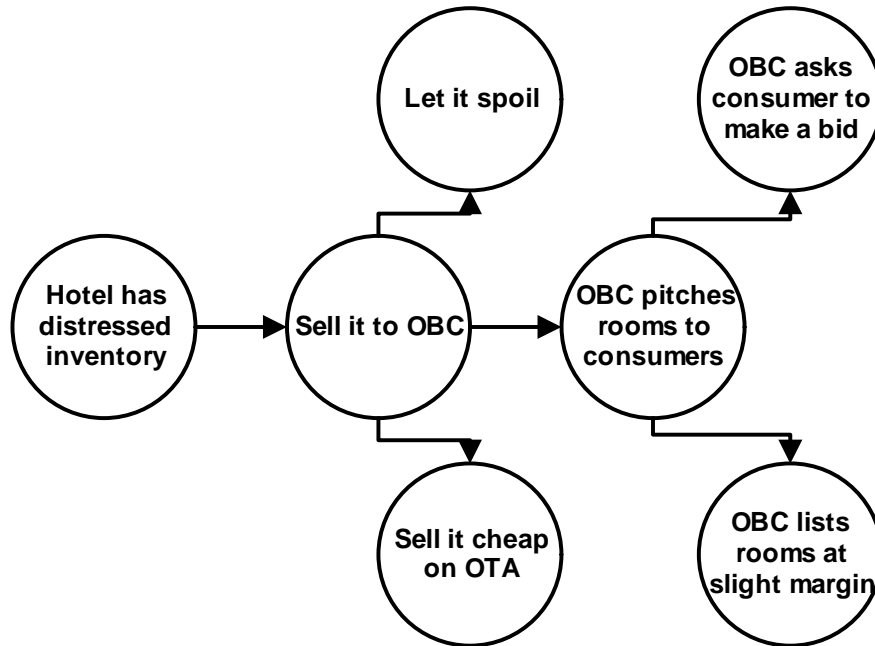


Figure 1: Opaque Booking Channels (OBC)

Selling inventory through opaque channel helps hotels to balance their room revenue by selling their inventory at higher profit margin to customers who are service sensitive and selling inventory at lower profit margin to customers who are price sensitive. Hotel room suppliers trade off their average room recovery with higher occupancy for net gain (Wang, Gal-Or, & Chatterjee, 2009).

Several hotel organisations opt for simultaneous use of opaque selling with regular full information selling in other channels. This strategy, effectively segments consumers allowing firms (Figure I) to sell at higher prices to higher valuation/brand loyal consumer and at lower prices to lower valuation/brand agnostic shoppers via opaque channels (Anderson & Xie, 2014).

2.1. Commoditization

In the electronic distribution channels of hotels, opaque websites have become very important intermediates. It has been observed that as opaque websites encourage consumers to mostly focus on price of the hotel rooms, which has led to a situation of absolute commoditization of hotel rooms. The commoditization is encouraging consumers to do compare the price before purchases. This situation of commoditization has led to a situation where the sellers cannot differentiate their products and services in the minds of consumers, even though they are different (Granados, Kauffman, Lai, & Lin, 2012).

2.2. Increased price competition

The selling mechanism designs employed by opaque websites are focused on lowest price discovery. The opaque website's search results are mostly based on prices tiring. Hotel operators do not get the opportunity to communicate their differentiation and unique value propositions to buyers. In opaque website consumers is more interested in lower prices than other unique features and services of the hotel. Initially consumers just check few qualifying attributes then focus on lower price. This results into a situation of fierce price competition among hotel suppliers.

2.3. Higher commission

To gain visibility hotel suppliers are paying higher commissions for a high ranking on the first page of search for their hotel.

Opaque websites are taking share from the profit margin of hotels which hotels are unable to protect hoping that sharing their profit with opaque websites will help them to achieve higher turnover and the their net profit will go up. The equilibrium may not be true in all the cases, it may so happen while selling hotels distressed room inventories which may otherwise go unsold, the opaque websites are eating up their potential profit which hotel operators are unable to recover.

3. INTERMEDIATES

Opaque selling is one of the most profitable business segments of online travel agents (Green & Lomano, 2012). Opaque websites are very successful in negotiating and designed their business model in such a fashion that hotels are forced to offer steeper discounts on room rates to sell their distressed inventory (Figure II), than those offered by non-opaque travel websites or traditional offline methods of distribution, such as "brick-and-mortar" travel agencies, telephone reservations centers of the hotel properties.

Opaque websites with their unique features and offerings of deep discounted room rates are able to attract large numbers of consumer to buy hotel rooms through them. Opaque websites educate their customers that although they need to trade-off certain benefits such as losing points in loyalty program offered by other non-opaque websites and direct hotel websites and also may require to be flexible regarding the booking dates and duration of stay but still the trade-off is value for money as they get very high discounted room rates.

Although the booking confirmation is real time through opaque websites but may not be absolute instant. Some opaque websites takes time to notify to their consumer whether the room rates bided by the consumer is accepted to the opaque website or not. Many opaque websites claims that they notify within 3 minutes but in many instances it took much longer than 3 minutes. In some cases consumer may require to bid more than once.

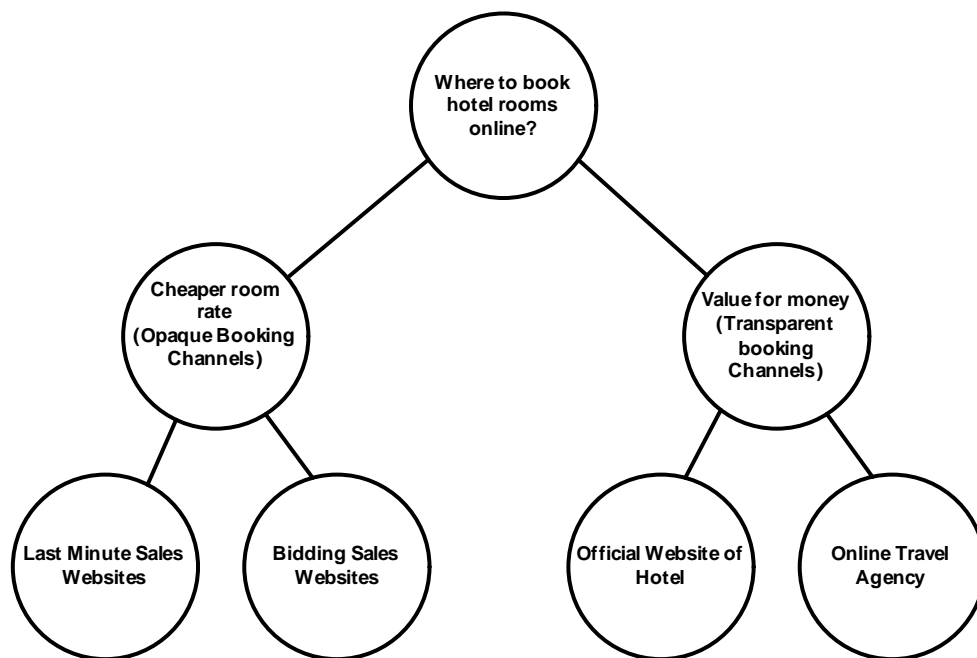


Figure 2: Online Booking Choices

3.1. Cheap instead of value for money

All the opaque websites are very much aware that consumers are opting for them because they expect deeply discounted cheap room rates and certainly this set of consumers will not just be satisfied if they get value for money in bargain with so much of trade-off. Knowing this fact very well all the leading opaque websites claim that they are so good at negotiating with hotel operators that no other can match their cheap rates. Even they have been glorifying the slogan “cheap” instead of value for money.

3.2. Flexible feature

Some consumer prefers to pay the hotel directly at the time of their stay rather than up-front at the time of booking. To win these set of consumers opaque websites have brought out flexible features such as “Pay when you stay” option offered by Priceline (Anderson, 2009).

3.3. Information diffusion

Now there are many online travel websites, online communities and discussion forums present who shares lots of valuable information and insights regarding bidding process and how to anticipate the right price on offer in various opaque websites. As consumers are fully aware of these helpful sites, to win the auction without too much over bidding the bidders are now discussing among their network of friends in the digital world. Bidding behavior of opaque website's users are changing with the changed scenario of easy and quick sharing of information and diffusion of information in this internet era. Many consumers are taking advantage of the prediction services of Bing.com website to predict the best time to purchase "last-minute" offer for room sale. BiddingForTravel.com website is helping the consumer with its various analytical reports on bids on hotel rooms offered by leading opaque websites such as Expedia and Priceline. Another informative website BetterBidding.com is displaying the lists of bids of Hotwire and Priceline on its website. This information diffusion is reducing information asymmetry among prospective buyers. In turn the opaque websites are reacting to this situation and managing the information diffusion and further setting the secret reserve price optimally (Hinz & Spann, 2010).

3.4. Preferred Partner programme

Opaque websites always struggle to tie up with maximum numbers of the leading hotels of an area to have the credibility and win confidence among the consumers. When opaque websites are unable to tie-up with few then they claim that these hotels are not part of their preferred partner programme.

3.5. Customer Service

While booking, experienced consumers usually check the customer service policies and their timing of operation of the opaque website. To win confidence most of the opaque websites offers customer care services through toll free call centers which are operational round the clock. Although most of these call centers run by other outsourced third party call center operators but opaque websites ensure quality services to their consumers through various quality audits and checks.

4. CONSUMERS

4.1. Complexity

Consumers find booking hotel rooms through opaque websites are more complicated than booking through other transparent websites or direct hotel websites. Consumers passes through a risk of uncertainty and therefore feel nervous while transacting through opaque hotel websites as the consumer does not know the name of the hotel property unless he pays for the room reservation. The process could be very complex for new consumers who are bidding a price they are ready to pay for the hotel rooms.

4.2. Higher Risk

While transacting through opaque websites the consumer is bidding, in which the consumer actually subject to biting around the bush with very limited clues. Therefore the consumer has equal chances of getting or not getting a lowest rate for a hotel room through the opaque website. Considering the pros and cons of buying through opaque websites many consumers do not like to take the risk although they see some

benefits. Estimating the trade-offs transacting through opaque websites compared to other channels many consumers may or may not consider the opaque websites while buying hotel rooms.

The trade-offs required to use opaque websites are very subjective decision for many consumers. Consumer evaluate whether the savings from lower room rate provided by opaque websites than other channels is worth the trade-offs required by the opaque sites. The Opaque websites have brought lower room rates in many cases. But with the lower rate the consumer has assumed the risks and responsibilities associated with the deep discounted rates offered by opaque websites. It has been observed that the purchase process differ largely while consumer buy for their business and vacation. Further it has been observed that most of the consumers buy through opaque websites when the purchase is for business purpose while few of the same set of customer use these opaque websites for their vacation. It is observed most of the consumer would not like to use opaque websites when planning for a very special vacation which they want to make the most memorable vacation of their lifetime.

4.3. Risk aversion

To reduce the risk most of the consumers do a preliminary survey and compare few transparent hotel websites (Online Travel Agents', Meta and Consumer Opinion websites) and also check on the hotels' own branded websites as well before final transacting through opaque websites. Usually consumers first obtain some benchmark prices for the lowest room rates available through other channels before bidding for a room rate through an opaque hotel website. When purchasing hotel rooms through opaque websites consumers are trying to understand the opaque website's booking, amendment and cancellation refund policies and trying to understand the implications of non-retractable bidding. Opaque websites' rebooking and cancellation policies can be much stricter. While booking hotel rooms online consumers need to know that in some of the websites the rates displayed does not include all the taxes, fees, and surcharges which will be added to the displayed base rate. In addition, many opaque websites charges booking fees of their own on top of all these. These added fees and charges are very different among different opaque websites and are generally quite confusing.

4.4. Price sensitive consumers

Opaque transaction provides hotel operators the opportunity of identifying and dividing the group of consumers who are conscious and sensitive to product differentiation and who are insensitive to differentiation of product. The group of choosey consumer who are very selective will buy regular rooms from non-opaque websites and the group not so particular of brands or room specification will buy rooms from opaque websites. Therefore through opaque sales channel a hotel operator attract the price sensitive consumers who are not very particular about the product and services. Piccoli & Lloyd (2010) researched on the relationship between prices and consumer search activity and they found that price sensitive consumer spend more time on search. Opaque channels help to reach previously underserved price sensitive customer (Zouaoui & Rao, 2009) (Shapiro & Shi, 2008)(Shapiro & Shi, 2008).

Two major set of consumers are attracted to opaque bookings are: (i) the set of consumers equate value with low price and define value as "value is low price" (ii) the set of consumers consider all the components they sacrifice and all the benefits they receive define value as "value is what I give for what I get".

The group of consumers who are sensitive to brand and product differentiation do not prefer to buy hotel rooms through opaque channels. These set of consumers are ready to pay a premium to ensure that they are buying exactly the same product and brand they wish to buy. For these set of consumers price is far less important than the brand or product match (Zeithaml, 1988).

Incorrect rates: In few instances it has been observed that room rates displayed in some opaque websites are actually not available. When the consumer tries to book at that rate then only the consumer is notified that this rate is no longer available.

Preferred Partner programme: All leading hotels are not part of any opaque websites does not display all leading hotels.

5. CONCLUSIONS

Few years before when the internet penetration was low and the hotel room inventory distribution through electronic distribution channels were not that popular, hotel operators were treating opaque websites as their competitors. With the introduction of the electronic distribution, it became a real challenge for hotel room suppliers to hide their discounted rates offered to different market as they are published on several electronic channels. As hotel rack rates along with their discounted rates are displayed to consumers through different websites, hotel operators are interested to sell their distressed inventory through opaque websites to maintain their rate parity on all non-opaque websites. Now, hotel suppliers are treating opaque websites as their partners. As a result hotel operators are considering opaque websites as a major channel for their room distribution while formulating their distribution channel strategies to optimize their inventory and maximizing their revenue. Maintaining the opacity of the rate and inventory has been a constant challenge both for the opaque websites and hotel suppliers.

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