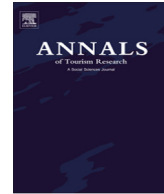




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The impact of a new online channel: An empirical study



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ABSTRACT

This paper investigates the impact of adding a direct online channel on a firm and its intermediaries. We develop a set of testable hypotheses and then empirically test them on a longitudinal transaction dataset from the hospitality industry. Our results show that the introduction of a direct online channel significantly reduces the price premium charged by intermediaries, and the impact varies across consumer segments and product markets. More interestingly, we find that, after the adoption of a direct online channel: (1) the intermediaries are not necessarily worse off; (2) price dispersion increases for products sold through both intermediaries and direct channels; and (3) the price dispersion increase is higher for products sold by intermediaries.

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Introduction

The channel conflict between service suppliers (e.g., hotels and airlines) and their intermediaries in the tourism industry has become increasingly intense during the last decade as more service suppliers have added a direct online channel to their existing distribution channels. For example, it was alleged that Flight Centre, a large travel agency in Australia, attempted six times between 2005 and 2009 to

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induce Singapore Airlines, Malaysian Airlines, and Emirates to cease the direct offering and booking of their own international airfares on their website at prices lower than Flight Centre's ("Flight Centre" 2012). Thus, how to effectively manage the relationship between service suppliers and their intermediaries (e.g., travel agents) has become a challenging managerial issue in the tourism industry. To better manage the channel conflict, it is crucial for marketing managers and academic researchers to have a deeper understanding of how adding a direct online channel impacts service suppliers and their intermediaries. However, previous research has not developed a broad theory or provided empirical analysis on this important topic.

Previous research on online channels focuses on studying the impact on consumer purchase behavior and firm performance. For example, Ansari, Mela, and Neslin (2008) investigate how customers migrate to the Internet channel using data from a retailer that sells consumer durable and apparel products, and they find that marketing efforts and exogenous customer-level trends play key roles in customer migration to the Internet channel. Using data from direct marketers that use online and catalog channels exclusively, Kushwaha and Shankar (2013) show that two product category characteristics (i.e., the utilitarian versus hedonic nature of the category and perceived risk) moderate the relationship between consumers' channel preferences and their monetary value to a firm. Geyskens, Gielens, and Dekimpe (2002) examine the impact of adding a direct online channel on a firm's stock market return in the newspaper industry and find a positive return on the online channel investments.

Research in tourism has studied the effects of the Internet on travelers' purchasing behaviors (Lang, 2000), the characteristics of travelers booking online (Card, Chen, & Cole, 2003; Morissonn, Jing, O'Leary, & Cai, 2001) and the impact of the Internet on travelers' vacation planning processes (Pan & Fesenmaier, 2006). A recent study by Boffa and Succurro (2012) investigates the impact of direct online bookings on seasonality and find more direct online bookings lead to an increase in seasonality.

Along with the impact on travelers, the Internet has greatly shaped the evolution of channel distribution systems in the tourism industry (Buhalisa & Law, 2008; Koo, Mantin, & O'Connor, 2011; O'Connor & Frew, 2002). As the Internet have shifted the power balance of tourism distribution channels (Berne, Garcia-Gonzalez, & Mugica, 2012) and intensified the complexity of tourism distribution systems (Kracht & Wang, 2010), it has become more difficult for a supplier to develop an effective multi-channel distribution strategy (Alamdari, 2002; Buhalisa & Licata, 2002; Díaz, Martín-Consuegra, & Estebanc, 2015; Pearce & Taniguchi, 2008). To address this important issue, Pearce (2008, 2009) has developed a conceptual framework and a step-by-step process for suppliers based on the needs of tourists and the functions required to meet them. Empirical studies on multi-channel strategies in the tourism industry have examined the consumers' uses of different distribution channels (Cheng & Huang, 2014; Del Chiappa, 2013; Pearce & Schott, 2005), the channel performance in multi-channel tourism distribution systems (Pearce & Taniguchi, 2008), and the structure and functioning of tourism distribution channels (Huang, Chen, & Wu, 2009; Pearce, 2002; Pearce & Tan, 2006; Pearce, Tan, & Schott, 2004; Stuart, Pearce, & Weaver, 2005). Table 1 summarizes the literature on tourism distribution channels.

The adoption of a direct online channel by many firms has also intensified the conflict between firms and their intermediaries and spurred a debate on the possible disintermediation of intermediaries (Berthon, Ewing, Pitt, & Naude, 2002; Buhalisa & Licata, 2002; Giaglis, Klein, & O'Keefe, 2002; Jallat & Capek, 2001; Sen & King, 2003; Vandermerwe, 1999). In the context of tourism, several studies have investigated the impact of direct online channel on travel agencies and discussed alternative strategies for travel agencies to survive in the future (Dolnicar & Laesser, 2007; Law, 2009; Law, Leung, & Wong, 2004; Novak & Schwabe, 2009; Suárez Álvarez, Díaz Martín, & Casielles, 2007; Tse, 2003). Law (2009) studies travelers' perception on disintermediation of travel agencies and suggests that the Internet cannot replace travel agents entirely and there is still a role for travel agents. Tse (2003) analyzes several possible actions that travel agents could take to respond to direct online channel and suggests that travel agents can provide value-added services needed by customers to re-intermediate themselves. Suárez Álvarez et al. (2007) show that the quality of the travel agency's offer on the Internet such as personalized and individualized service and the ease of using the channel impacts customer trust in the travel agency. They suggest that retail travel agencies can increase their competitiveness by having online presence because consumers consider the travel agency's online

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