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Assessment of the Integration between Travel Agencies and Hotels: A Case Study on Sharm El Sheikh

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Abstract

Economic integration with various distribution channels has been a major element in marketing strategies, particularly in the tourism and hospitality industries. The current trends of disintermediation and/or the introduction of new intermediaries were investigated in five-star hotels in Sharm El-Sheikh, Egypt through a retrospective analysis of room booking records referred by different distribution channels. In a total of 233 channels, the mean referred bookings were highest by other hotels (n=6) during the non-peak period in March (87.67 [62.02]) and by online referrals and tour operators during the peak season in August (168.56 [120.55] and 124.6 [98.11], respectively). Travel agencies reported the lowest mean of referred bookings across the whole study period, indicating their gradual disintermediation. No difference was noted in the referral patterns between horizontally- or vertically-integrated channels. Despite the current tendency towards increased bookings from tour operators and online channels, the integration with online booking services should be primarily emphasized in the hospitality settings.

Key Words: horizontal integration, vertical integration, hotels' booking, travel agencies.

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Introduction

Economic integration has grabbed the attention of several economists and it has been considered as one the of the major elements of the economic development in the last years (Gibbs, 2016; Laudon and Traver, 2016). As an intuitive prediction, the prospects of growth would be steadily decreased if there is a barrier that impedes the flow of ideas, goods, and people between the different economic bodies. Additionally, it has been demonstrated that the creation and transmission of ideas has been of a major implication for the development of modern standards of living (Gursoy and Swanger, 2007).

On the level of national economy, manufactures always strive for more efficiency and quality of their products to enhance their production and improve their procedures within the frames of global competition. In addition, potential quality defects should be excluded even before their incidence to reduce the possible costs of reworking of parts with inferior quality (Kletti and Deisenroth, 2018). For this purpose, researchers have raised the need for a close cooperation and mutual relationship between the organizations and their supply chain partnerships (Lambert and Cooper, 2000; Wisner and Tan, 2000) as well as an adequate improvement of inter-organizational processes (Zhao *et al.*, 2008).

The integration between firms could be defined as sharing different paradigms of models and data by departments utilizing multiple applications related to multiple disciplines and phases of the project (Betts *et al*., 2005). Actually, this aims to enhance the overall profitability and market share. Integration between different firms have several benefits. If it is imperative to make transaction-specific investments by either the buyer or the seller, the integration will be able to cause a remarkable reduction of the cost of market transactions (Chen and Tseng, 2005). Furthermore, the integrated firms would be able to provide several outputs. From the market power perspective, the firm would be able to use profits that come from one market to sustain competitive prices in another firm. Reciprocal buying is another advantage of integration, where the market is apparently blocked to smaller components (Montgomery, 1994). From the perspective of resources, firms integrate in order to attain better benefits from the excess capacity, which means that the service could be shared by two or more production lines without extreme congestion (Gursoy and Swanger, 2007). It seems that enlarging the boundaries of

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integrated firms would increase their personal power and subsequently there will be a tendency towards building an "empire".

Integration is essentially applicable to multiple industries. For example, in newspaper and television media industries, firms tend to be almost fully integrated and they currently shifted outside the stages of production along with the emergence of strong intermediate markets (Gambaro, 2005). However, in the energy sector in the United States, the effects of integration produced little return performance for all energy firms, particularly natural gas industry (Pozzi and Vassilopoulos, 2007). For the food and agricultural sectors, it has been observed that large processing firms have a premium associated with integration due to lower fixed costs, lower variable costs, and better abilities for negotiation (Dorsey and Boland, 2009). Finally, a recent study by van Duijn *et al*. (2018) has shown that the integration between social services and health care, employment and/or education should be tailored to a distinct group or designed for certain communities in order to achieve its goals.

Tourism industry entails sectors of large initial capital costs and extremely low marginal costs and includes several sectors, in which integration might provide an economic solution for corporates, especially within the context of economic globalization. For instance, transport, entertainment, food, beverages, and accommodation are all involved in this industry and the integration might have a robust implication for development.

1. Literature review

1.1 Horizontal and vertical integration:

Integration is considered to be horizontal when a firm operates in several branches of the same industry or in different industries but conserving its operations at the same level of production chain (Bruno, 2011). For example, a firm that operates a hypermarket might take over another business of a travel agency; being at the same buying chain would render them horizontally-integrated. Another example in public network services is the presence of firms that jointly operates in water, gas, telecommunications, and electricity distribution. In this type of integration, the merged firms can utilize similar assets with shared maintenance aspects that require similar skills, can robustly raise funds, and they can collaborate in customer management, administrative activities, and advertising (Fraquelli *et al*., 2004).

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On the other hand, vertical integration means that the firm can expand and operate at successive levels in the production chain, such as both the distribution and generation of electricity. While horizontal integration might cause a remarkable reduction of costs, particularly if the merged firms are appropriately rationalized and centralized on the administrative level, vertical integration has also the ability to promote a competitive advantage over other rivals of an equal efficiency (Hamilton and Mgasgas, 1997). Vertical integration provides a cost-saving alternative to the separated firms, where the exchange of resources is performed through a market mechanism, and this might be ascribed to avoiding transaction costs related to the market exchange (Garcia *et al.*, 2007). In addition, firms operating in the technological economies are physically interdependent in production, providing complementary and coordinating advantages (Holmberg and Cummings (2009). Firms would be able to control other stages of production as well as distribution and, therefore, have the property of complete flexibility to make relevant decisions related to production, distribution, and investment (Gambaro, 2005). From a general management point of view, both horizontal and vertical integration could be viewed as vital determinants of the profit rates of a given industry. This might be attributed to allowing larger economies of scale, product differentiation, and innovation (Sinclair *et al.*, 2003).

1.2 Basic concepts in the economics of tourism:

The core economics of tourism includes allocation of the available resources to satisfy the demand of consumers as well as the supply of different goods and services, such as transport, agency services, accommodation, souvenirs, food. Both the demand and supply criteria combine to reveal an adequate assessment of the impact of tourism from a wider perspective. This could be ranging from quantifying of tourism size utilizing the relevant input-output models to the measurement of further demand via general models that assess the role of tourism in economic development (Buhalis, 2000). The recent literature dealt with the demand of tourism in terms of tourism motivation, with investigation of the responsiveness of demand to various determinants in a detailed manner. On the other side, studies of tourism supply focused primarily on specific sectors, including air transport, hotel accommodation, and tour operation due to the fragmented supply. The supply of tourism is of a great implication for integration in this sector. The aforementioned components of tourism supply cannot be investigated before purchase, cannot be stored. In addition to the presence of travel item, all these properties differentiate tourism supply from other products. Therefore, it is better not to consider tourism supply as a sole industry, but rather a number of interrelated industries in the market (Sinclair *et al.*, 2003).

1.3 Integration in the tourism sectors

In general, the structure of supply-related sectors, including horizontal and vertical integration inside and among hotels, tour operators, airlines, and travel agents has been studied in the literature. The main drive of change in these economic bodies has been the technological advancement (Morrell, 1998). For example, although the integration in the tourism sector has begun in the early 1900s with the emergence of the Trust Houses in England and Ritz-Carlton chain in France, it was not until the 1930s when the integration gained momentum with the development of Hilton Hotels and Sheraton. Following the World War II and parallel to the increasing demand for accommodation due to the progressive use of private motor vehicles, such concentrations have been remarkably expanded along with a notable reduction in the small family hotels which are located on the bypass of the novel highway system at time. Later on, in the 1970s, Hilton led the development of casino hotels, which made an efficient synergism between the accommodation and entertainment sectors (Lafferty and van Fossen, 2001). Holmberg and Cummings (2009) emphasized the importance of horizontal integration during the 1980s due to the withdrawal of airline investments from hotel chains. Nonetheless, Gayla and Brown (2013) stated that the linkages between European airlines and local and international hotels reached a total number of 20 during the same period. This was represented in the form of either a total ownership or an impactful equity participation. Finally, the Marriott organization made a significant expansion of its food and beverage industries and captured the most of shares of the Ritz-Carlton chain in the 1990s (Lafferty and van Fossen, 2001).

In the airline sector, there is a difference in the operational and cultural criteria compared to hotels because of the importance of airlines on the national and international levels and hence its association with the government. For example, although the Pan American World Airways has pioneered jet travel through purchasing the firstly-introduced large airplanes in the United States in the 1950s, its national and international dominance has been disintegrated in the late 1960s parallel with the threatened international US hegemony at time. In contrast, Trans World

Airlines employed a program of diversification at the same time along with a greater predictable cash flow. This was accomplished via purchasing the Hilton international, enabling the airline to resist the crisis even after selling the airlines itself (Martin-Fuentes, and Mellinas, 2018).

1.4 Vertical integration in the tourism industry

Given that there are multiple interrelated sectors in tourism industry, vertical integration, which includes synergism between these business sectors, might have advantages or disadvantages. For example, the merged firms may be regionally or globally expanded in their activities. This was apparent when several hotels, travel agencies, and car transportation firms have been integrated in Europe along with the established regional integration (Law *et al.*, 2015). Vertical integration would eventually lead to the standardization of the provided quality of service and competency (Theuvsen, 2004). Lafferty and van Fossen (2001) mentioned that the airlines that have had successful synergies with other tourism and hotel sectors have low levels of competition and benefited from large market shares. Additional advantages of vertical integration are expanding the market without the need of much capital investment and creating more opportunities, such as when a retailer apartment rent provider expands to become a major supplier of tour packages (Choi, and Kimes, 2002). Further, Boz (2016) stated that the horizontally-integrated large international tour operating firms in Europe, such as the TUI Group and Thomas Cook Group, have much more ability to negotiate lower prices at accommodation establishments.

Multiple disadvantages have been reported for vertical integration. There is a high risk of failure, particularly for some sorts of integration between hotels and airlines due to failure of sharing distinct critical resources and the presence of complementarities (Kátay, 2007). Another potential disadvantage that could be more apparent between tour operators and hotels in the Mediterranean region is the increased cost due to conflicts between the merged firms (Buhalis, 2000). Finally, large firms might establish non-competitive pricing policies, leading to providing a limited choice for consumers (Law *et al.*, 2015).

In general, several examples have been demonstrated for vertical integration in the tourism sector. An originally-identified tour operating firm in Canada, namely Transat, has been vertically-integrated with an airline (Air Transat) and has an additional integration with a hotel chain (Transat, 2017). Such aspect of synergism ensures lowering the costs and reduces the possibility of distributing profits to third parties. In the travel sector, the partnership of Virgin Trains with Stagecoach public transport provider provides a clear example of vertical synergism in the United Kingdom (Stagecoach, 2001). Examples of the unsuccessful partnerships between airlines and hotels include the detrimental integration between Hilton International and Trans World Airlines as well as Westin Hotels and United Airlines in the United States (Lafferty and van Fossen, 2001).

2. Objective

In this study, the researchers sought to investigate the effect of integration in the hospitality industry on the number of bookings of five-star hotels. This is to evaluate the current trends of disintermediation and/or introduction of new intermediaries. Additionally, the roles of vertical or horizontal integration were analyzed to provide relevant implications for hoteliers. The study was conducted on the integration between travel agencies and hotels in Sharm El Sheikh.

3. Methodology

As the present research is concerned with the assessment of integration between travel agencies and hotels in Sharm El Sheikh, the later has 51695 rooms which represent 26.4 % of the total capacity of hotels' rooms in Egypt. Regarding the 5 star hotels' rooms capacity in Sharm El Sheikh is 20993 which represents 40.6 % of its total room's capacity (Egyptian Hotel Association, 2016). For this purpose, a convenience non probability sampling (non-random selection) of six 5 star hotels were selected upon the weight of the hotel category i.e., its number of rooms in proportion to the total capacity in the city and to the extent of support and cooperation rendered by the hotels' managements to the researchers. The hotels' names were not mentioned for the sake of data confidentiality. A retrospective investigation has been conducted involving the records of the selected hotels during the period from January to December 2018. The previously selected hotels include 2580 rooms with different views, a private beach, swimming pools, and other facilities.

The numbers of bookings were extracted from the profile production statistics database on January 18, 2019. This included the number of booked nights in each month during the study period as referred by each distribution channel (institution). Data was extracted in a specifically-designed Microsoft Excel spreadsheet and all institutions were identified and categorized into either horizontally- or vertically-integrated channels and were further subdivided according to their major types.

Subsequently, data was entered, coded, and analyzed using the Statistical Package for the Social Sciences (SPSS) software version 19.0 for Windows (SPSS Inc., Chicago, IL, USA). Descriptive statistics were used to present the characteristics and distribution of referring channels. Discrete variables were presented as means and standard deviations while frequencies and percentages were used to report categorical variables. The One-Way analysis of variance (ANOVA) test was used to test the difference in reservation means across different referral sources to evaluate its statistical significance. In the instance of rejecting the null hypothesis (at P<0.05), a Tukey-Kramer multiple comparison analysis test would be performed to determine the exact sources of statistical significance, where the mean differences (MDs) were considered significant if the lower and upper bounds of confidence intervals (CIs) did not contain zero. Besides, an independent samples t-test was used to investigate the difference between the mean values of reservations referred by the horizontally- or vertically-integrated institutions in each month and the whole study period. All tests were considered statistically significant at P<0.05.

4. Results

A total of 384,960 room nights were reserved during the period from January to December 2018. The referring bodies (n=233) were classified into four main categories: hotels (horizontal integration), tour operators, travel agencies, and online websites (vertical integration). Travel agencies were the most frequent bodies, representing 52.4% of the total number, while only six hotels (2.6%) were involved in the referral process (

Table 1).

Table 1: Characteristics of the referring institutions.

Categories	Frequency	Percent
Hotels	6	2.6
Internet	9	3.9
Tour operators	96	41.2
Travel agencies	122	52.4
Total	**233**	**100**

As for the number of reservations, tour operators reported the highest frequencies, representing 69% of the total reservations, followed by travel

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agencies (21%), online booking websites (6%) and hotels (4%).

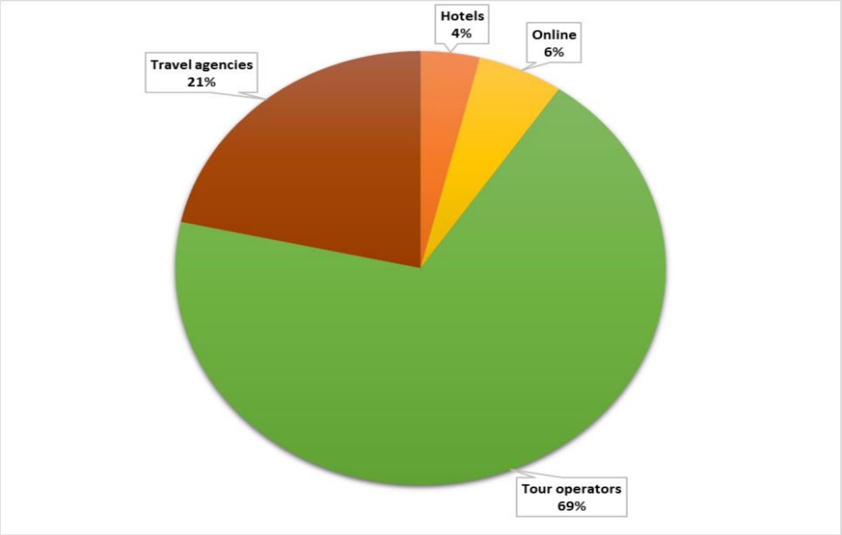

Figure 1: The distribution of different referring booking channels according to the number of referred bookings.

By stratifying the outcomes according to the months of reservation, the highest frequency of reservation was reported in the summer season, namely in August (74924) and July (68396), while the lowest number of rooms were booked in winter (17132 reservations in February and 18592 reservations in January).

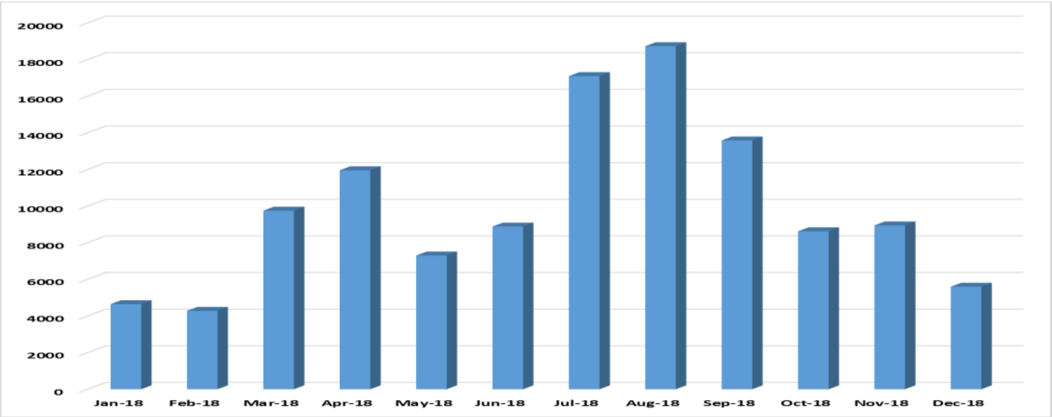

Figure 2: The frequency of bookings referred by different distribution channels during the period from January to December 2018.

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Table 2 shows the mean values of reservation referrals from different bodies regarding the selected sample. The mean numbers of room reservations referred from travel agencies were consistently lower than other referring bodies during the study period. However, the statistical difference was apparent only in two months. Hotels reported the highest number of referred reservations in March (87.67 [62.02] reservations, P=0.02, Table 2) followed by tour operators and online referrals.

Table 2: The number of referred reservations from different institutions. Results are expressed as means (standard deviations).

	Hotel	Internet	Tour operator	Travel Agency	F	P
January	59.67 (39.01)	26.67 (17.56)	32.30 (27.64)	7.78 (7.92)	2.25	0.08
February	60.50 (54.48)	14.78 (23.02)	31.28 (27.42)	6.43 (5.3)	2.04	0.11
March	87.67 (62.02)	50.89 (47.78)	80.42 (64.29)[a]	8.6 (7.24)	3.12	0.02*
April	67.17 (46.69)	61 (59.18)	87.82 (75.62)	21.1 (18.85)	2.13	0.09
May	40.33 (34.27)	13.11 (7.51)	58.44 (40.94)	10.93 (8.62)	1.89	0.13
June	48.33 (32.66)	49.44 (37.86)	64.41 (51.18)	16.1 (14.69)	1.54	0.21
July	86.67 (74.86)	125.22 (87.7)	115.02 (99.2)	36.15 (25.09)	1.87	0.14
August	98 (84.77)	168.56 (120.55)	124.6 (98.11)[a]	38.23 (27.29)	2.66	0.04*
September	75.33 (64.09)	96.33 (84.71)	96.04 (75.5)[a]	24.96 (12.77)	2.58	0.05
October	69.22 (54.87)	47.55 (30.22)	77.48 (59.12)	15.4 (11.2)	2.02	0.11
November	68.42 (49.12)	27.16 (15.44)	47.57 (30.4)	10.02 (7.09)	2.27	0.09
December	62.11 (45.22)	37.98 (21.05)	30.69 (21.9)	5.17 (3.99)	1.92	0.12
Total	**823.42 (642.06)**	**718.69 (552.58)**	**846.07 (671.32)[a]**	**200.87 (150.05)**	**2.77**	**0.04***

*a: the mean reservations are significantly higher by tour operators than travel agencies. * The mean difference is statistically significant at the 0.05 level.*

On the other hand, in August, online referrals had the highest reservation rates as compared to other booking channels (168.56 [120.55] reservations) and the difference between different referring bodies was statistically significant (P=0.04). Importantly, there was a significant difference in the total reservation rates across the months under study (P=0.04), with the highest mean reservations referred from tour operators (846.07 [671.32]) followed by hotels, online websites, and travel agencies (Table 2)

To determine the sources of significant differences reported in the aforementioned analysis, the results of Tukey-Kramer multiple comparison analysis revealed that the mean reservations referred by tour operators were significantly higher than those referred by travel agencies in March (MD=71.82, CI: 9.57 to 134.06, P=0.016), August (MD=86.38, CI: 0.16 to 172.59, P=0.049), and September (MD=71.08, CI: 3.12 to 139.04, P=0.036, data not shown). Similarly, the difference in the total mean of referral was statistically significant from tour operators as compared to travel agencies across all months (MD=520.07, CI: 43.1 to 997.04, P=0.027).

To compare the components of integration, the researchers combined the institutions contributed to vertical integration, including tour operators, travel agencies and online booking websites, and compared their mean referral reservations with those of the hotels, which constituted the sole component of horizontal integration. Although the mean referrals of combined vertical integration components were generally lower than those of the horizontal integration in a consistent manner throughout the study period, the difference between means was not statistically significant (Table 3).

Table 3: The mean reservations referred by different institutions classified by the type of integration. Results presented as means (standard deviations).

	Horizontal Integration	**Vertical Integration**	**P**
January	59.67 (39.01)	18.90 (12.82)	0.22
February	60.50 (54.48)	17.27 (10.23)	0.22
March	87.67 (62.02)	40.65 (24.13)	0.53
April	67.17 (46.69)	50.90 (40.77)	0.84
May	40.33 (34.27)	31.11 (24.01)	0.88
June	48.33 (32.66)	37.85 (21.19)	0.88
July	86.67 (74.86)	73.04 (59.84)	0.89
August	98 (84.77)	79.93 (61.51)	0.86
September	75.33 (64.09)	57.85 (42.23)	0.83
October	69.22 (54.87)	43.64 (38.11)	0.51
November	68.42 (49.12)	24.25 (16.07)	0.31
December	62.11 (45.22)	21.41 (10.12)	0.25
Total	**823.42 (642.06)**	**496.8 (361.03)**	**0.64**

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5. Discussion and conclusions

The distribution channels in the tourism and hospitality industries have a major impact on the revenue of various institutions. Traditionally, hotels relied on three main distribution channels, including central reservation offices, travel agencies, and hotel direct booking (Choi, and Kimes, 2002). Recently, internet-based booking systems have emerged and considered as an additional distribution channel for hotel systems. In the present study, it was designed to investigate the role of different integrated institutions in changing reservation rates in five-star hotels at Sharm El-Sheikh. The findings showed that tour operators, as one of the traditional distributions channels, are still the major contributor to increasing booking rates. Nonetheless, the emergence of online systems has also a notable impact on reservation rates, particularly during the peak season.

The latter observation is consistent with the remarkable contribution of information communication technologies, particularly the internet, in the tourism field and its significant impact on shaping the demand and supply practices within the industry as a whole (Aureli *et al.*, 2013). The use of the internet to transact business is referred to as electronic commerce (e-commerce). Such an aspect has grown and developed rapidly due to the convenience experienced by the customers. Business-to-consumer (B2C) e-commerce entails trials to reach an individual customer by an online business while business-to-business (B2B) e-commerce includes focusing primarily on selling to other businesses. Although B2C e-commerce is relatively small as compared to the B2B e-commerce (as estimated in the United States as $531 billion and $6.3 trillion in 2015, respectively), the B2C strategies have grown considerably since 1995 (Laudon and Traver, 2016). The increase in the popularity of B2C transactions may be attributable to online deals at high discounts.

In the B2C segment, companies and hotels are able to communicate directly with the customers at a much lower cost through generating online content and social media to maintain brand presence (Ashley and Tuten, 2015; Hainla, 2019). Company websites are managed directly by the hotel institutions. Online travel agencies represent another form of internet-based distribution channels and they act as third-party intermediaries between hotels and customers. In the present study, ῗbooking.comò was the leading online distribution channel compared to other online channels during the whole study period. Booking requests from both internet-based channels are processed via a central reservation system or global distribution system. The cost of booking is essentially based on the involved system in the booking process.

On the other hand, customer gains access to these systems through the Web or the mobile platform. Hotels and other tourism and hospitality companies should emphasize the role of mobile applications and web-based marketing strategies. Mobile apps have a particular importance in the light of the increased use of mobile that overtook that of desktop computers in several countries, including the United States and the United Kingdom (Gibbs, 2016; Laudon and Traver, 2016). In an analytical investigation relying on mobile apps developed by online travel agencies and hotel brands, Wang *et al*. (2016) have recently suggested that the appropriate understanding the recent capabilities of mobile apps and the related user experience would enable the hospitality institutions to develop more effective distribution strategies and utilize user-friendly apps. The primary intention for publishing a mobile app should be to promote special offers, enhance the interaction with guests along with providing information about the destination as well as to increase the loyalty of existing customers (Adukaite *et al.*, 2013).

As such, in the hotel context, the integration with online booking services has a promising effect. Seemingly, the adoption of online distribution channels by the hoteliers relies on the demand of customers, hotel characteristics (new or well-reputed), and the stance of top management (Theodosiou and Katsikea, 2012). Although tour operators still have a significant impact on the distribution channels as revealed in the current study, there is an emerging trend in other developed hospitality institutions of different countries towards disintermediation of traditional channels (Stangl *et al*., 2016; Law *et al.*, 2015; Martin-Fuentes, and Mellinas, 2018), such as tour operators and travel agencies, a matter which could be clearly seen in the peak season. The advantageous role of traditional distribution systems was apparent in the role of horizontally-integrated hotels as the main sources of booking referrals during the non-peak periods in the present investigation. In addition, the persistent impact of tour operators may be ascribed to the cultural, regional, and demographic variations of the customers who would still ask for services provided by human beings rather than the machines. Some technological limitations in the booking system may play a role in this observation and it should be further investigated.

However, despite the equal importance of the integrated traditional and internet-based channels of distribution at present, the role of traditional ways would frequently decline in the future with the increasing beneficial aspects of online channels. This signifies the relevance of relying on internet-based strategies that target online booking by the consumers. From a pragmatic standpoint, the traditional channels should take the advantage of the internet to tailor robust strategies instead of rendering it as a threat.

In this study, the seasonal pattern of reservation demand was not surprising. Seasonality in tourism has long been identified as a temporal imbalance in the number of visitors/tourists due to natural or institutional causes (Weidner, 2006). Changes in the weather, such as temperature, rainfall, sunlight, etc. are common natural etiologies. Institutional causes include specific actions, policies, and events that may impact reservation rates. It can be clearly noted that summer holidays play an important role in flourishing the reservation demand. Although seasonality has negative economical, ecological, and social influences on tourism destinations, it enables the hotels to recover from stress implied during peak seasons.

This study has some limitations that should be taken in mind. Relying on a single destination may have a limited power to reveal a generalized conclusion. Therefore, multi-destinations or country-based investigations are warranted. Rather than implementing a retrospective analysis, a longitudinal study that reveal insights into the changes in balances between members of the integrated distribution channels is appreciated. In addition, the research was focusing on 5 star hotels, further investigation should take place on 3 and 4 star hotels. Finally, the research had access to data for one year only, future studies should be based on longer periods.

In conclusion, a significant decline of the role of travel agencies as distribution channels for hotel booking has been evidenced. This was associated with an approximate equal surge of booking rates referred from the vertically-integrated tour operators and online booking websites as well as the horizontally-integrated hotels. The latter integration seems to be more effective only in non-peak periods. However, in line with the rapid emergence of internet-based channels, including websites and mobile apps, and the recent disintermediation of travel agencies, hoteliers and industry practitioners are required to actively cope with these changes such that the businesses that appropriately utilize these technologies would remain competitive. Future directions should be customer-oriented by investigating the perceptions of customers of online booking utilities and tailoring relevant marketing strategies according to their demands.

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