

**THE ROLE OF MULTI-CHANNEL-MANAGEMENT
IN THE HOSPITALITY INDUSTRY**

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Abstract

Multi-channel Management has been described as “the management of the conscious and active formation of a distribution system with a combination of several distribution channels appointed by a manufacturer” (Merx and Bachem, 2003, p. 2). It has been recognized that companies need to design their multi channel strategies according to their individual situation (Gulati and Garino, 2000), meaning that they do not necessarily have to strive for the complete integration of online and offline activities with equal service and product offerings at all customer touch points (Wehmeyer, Kipp and Riemer, 2009). Due to the intangibility characteristics of hotels, distribution plays an important role in the Hospitality Industry. By creating and manipulating hotels’ accessibility, most consumer demands can be managed (Bastakis, Buhalis, and Butler, 2004, p. 152). However, little knowledge exists regarding the implementation of multi-channel-management in the hotel industry. To fill this gap the objective of this research is to investigate the application of multi-channel-management and the maintenance of rate integrity and rate parity. Data for this study were collected through online survey from a group of 37 Swiss hotel enterprises (a response rate of 31.97%) from the German, French and Italian regions of Switzerland. The findings are mixed with prior research, but provide a new insight by exploring the implement appropriate multi-channel management strategies to ensure rate integrity and rate parity and subsequently sustain customer trust, customer loyalty, as well as brand image in the context of Switzerland. In the light of existing literature, the implications of our findings for show hotels in Switzerland face limitations in their execution of multi-channel-management strategies, such as a lack of negotiation power, difficulties in managing real-time distribution, access to third-party intermediaries, as well as terms and conditions, and high intermediary commission rates.

Keywords: *Multi-Channel-Management, rate parity, hotel industry, Switzerland*

Introduction

In today's businesses, products and services are no longer distributed via a sole channel but instead through a variety of distribution channels such as third-party intermediaries and the company's own website (Merx & Bachem, 2003, p. 7). Therefore, it is necessary to implement an effective multi-channel management strategy. The hospitality industry in particular faces complications in the distribution process due to the intangibility of its product. Aside from intangibility, SMEs have to face a variety of other distribution challenges, which will be critically analyzed in this study. Rate integrity and rate parity are important prerequisites for customer trust and brand identity (Gazzoli, Kim, & Palakurthi, 2008, p. 376; Murphy, Schegg, & Qiu, 2006, p. 105).

The identification and selection of the most effective channel(s) is an important aspect of the marketing strategy which ensures that businesses remain competitive and continue to reach the desired target market (Jobber, 2004, p. 634). Due to the intangibility and invisibility of their product, hotels need to implement an appropriate distribution strategy (Gardini, 2004, p. 349). However, intangibility is not the only limitation which small to medium-sized hotels face. "New" (electronic) distribution channels such as the internet and online intermediaries, as well as the simultaneous management of numerous distribution channels, add a new dimension of complexity to distribution channel management (Klein, Schröder, & Zelewski, 2001, p. 7). This raises the question if SMEs are able to effectively manage a combination of traditional and "new" distribution channels to better cope with the challenges of rate integrity and rate parity due to highly transparent rates on the internet (Gazzoli, Kim, & Palakurthi, 2008, p. 384). In terms of distribution, SMEs need to be careful when selecting the channels they intend to use due to the challenges they face, such as a lack of negotiation power and a lack of resources (Morrison, 2002, p. 6). Thus, distribution channels are not only chosen by price, but also by their effectiveness and the opportunities they offer to increase visibility and customer loyalty (Merx & Bachem, 2003, p. 7). Implementing a multi-channel-management involves the consideration of issues such as rate integrity and rate parity since customer trust and loyalty can be gained (Gazzoli, Kim, & Palakurthi, 2008, p. 376). When the internet

emerged as a platform for online distribution, price transparency and dispersion increased (Murphy, Schegg, & Qiu, 2006, p. 107).

Literature review

The hospitality industry varies from other industries significantly due to the perishable and intangible nature of the hospitality service/product (Bastakis, Buhalis, & Butler, 2004, p. 152). All hospitality enterprises need to deal with these characteristics. However, small to medium-sized businesses in the hospitality industry face more barriers and limitations than larger enterprises in order to operate successfully. Furthermore, traditionally the hospitality industry has been characterized by small, seasonal and often family-run businesses (Morrison, 2002, p. 3). SMEs are an important component in the hospitality and tourism industry. According to Morrison (2002, p. 2) only 33% of worldwide hotel rooms are owned by hotel chains, the remaining 67% belong to small to medium-sized hospitality enterprises. In Switzerland, SMEs dominate the hospitality industry (Murphy, Schegg, & Qiu, 2006, p. 116). Moreover, it is estimated that more than 90% of all European hotels are small to medium-sized enterprises (Bastakis, Buhalis, & Butler, 2004, p. 151). Although SMEs are considered to be contributors towards economic development and local employment, these businesses face several challenges in today's business environment. Certain strategic and functional weaknesses regarding SMEs' planning and decision-making processes impede not only the operations and the standard of service provided, but also their ability to negotiate with stakeholders including intermediaries and suppliers (Bastakis, Buhalis, & Butler, 2004, p. 152).

The biggest challenge faced by hospitality SMEs is determining a clear vision of the target market, as well as the identification of customers' needs and wants. Selecting the most appropriate strategy to fulfil customer needs and wants is essential in order to remain competitive (Hwang & Lockwood, 2006, p. 340). Morrison (2002, p.3) adds that hospitality SMEs also need to consistently deliver quality products and services to each individual customer. Issues such as distribution via multiple channels and the maintenance of rate integrity and rate parity are important to reach the desired target market optimally and to gain customer trust. SMEs are particularly

dependent upon intermediaries due to their invisibility on the internet, and their lack of negotiating power (Bastakis, Buhalis, & Butler, 2004, p. 152). Nevertheless, it also is essential for SMEs to implement a multi-channel management system to cope with ever-changing consumer purchasing behaviour (Ganesh, 2004, p. 141).

Multi-channel management has been described as “the management of the conscious and active formation of a distribution system with a combination of several distribution channels appointed by a manufacturer” (Merx & Bachem, 2003, p. 2). According to Reid and Bojanic (2001, p. 223) the role of multi-channel management might be misunderstood or perceived as ambiguous, because the distribution channels used by hotels, when compared to those utilized by manufacturers, are not considered as ‘traditional’ channels of distribution. However, this is due to the fact that the hospitality product can neither be physically transported to a customer nor stored. Gardini (2004, p. 349) indicates that this intangibility of the service is attached to its locality and that the customer must proactively seek the hotel in order to receive the product/service, thus it is much more difficult to attract customers. Gardini (2004, p. 348) argues that it is crucial to ensure a consistent performance through all selected distribution channels. This can be achieved by establishing and managing central booking and reservation systems, by qualitative advising through hotel employees or intermediaries and by developing reliable accordance between the hotel image and the image of the selected distribution channels. As such, both traditional and online distribution via third-party intermediaries and the hotel website become relevant (Gardini, 2004, p. 349).

Direct channels hold the advantage of enabling closer contact with the customer as well as enabling the hotel to react more rapidly to market changes (Reid & Bojanic, 2001, p. 225). However, customers tend to make reservations through intermediaries rather than contacting the hotel directly. Moreover, hotels still face the problem of successfully diverting customers to utilise direct distribution channels rather than intermediaries (Gardini, 2004, p. 350). Indirect distribution is characterised by channels in which the customer communicates with the hotel through at least one intermediary which is responsible for one or more channel functions. These

intermediaries can either be travel agents, tour operators or travel agents in combination with tour operators. Intermediaries are utilised in multi-channel management systems as they add value to the hotel distribution strategy through their knowledge and expertise (Reid & Bojanic, 2001, p. 225). Moreover, intermediaries assist hotels in gaining greater share in the generating market, and to fill capacity (Bastakis, Buhalis, & Butler, 2004, p. 154). However, especially SMEs face a major problem when collaborating with intermediaries. Due to SMEs' lack of negotiation power, intermediaries often exert pressure on SMEs during allotment negotiations (Bastakis, Buhalis, & Butler, 2004, p. 153). Piramovsky (2007, pp. 9-24) emphasises the importance of electronic distribution channels. The hotel's own website is seen as a direct online distribution channel and a tool for direct marketing (Palmer & McCole, 1999). Various travel agencies and tour operators operate as e-commerce-only intermediaries and can only be reached via the internet (Chircu & Kauffman, 1998). Depending on the time, location, urgency and personal preferences, a range of distribution channels are available from which consumers can select the most adequate or preferred channel through which to contact the hotel (Piramovsky, 2007, pp. 11-12). According to Klein, Schröder and Zelewski (2001, p.1), businesses empower their competitiveness by integrating the relevant off-line and on-line channels effectively into a multi-channel management system. Merx and Bachem (2003, p. 7) state that an important characteristic of multi-channel-management is the simultaneous utilisation of different channels.

The challenge is not only to choose, create and control individual distribution channels but to differentiate between all of these channels and coordinate them accordingly. Furthermore, businesses need to identify which customers should be approached by which channel, and to determine how traditional distribution channels can be combined with new technologies such as the internet (Klein, Schröder, & Zelewski, 2001, p. 7). Therefore, it is important for managers to implement an efficient multi-channel strategy. Piramowsky (2007, p. 33) argues that hotels should pay attention to not seek one general solution for managing all distribution channels within a multi-channel management system as all channels have different characteristics and if the differences are not considered, the advantages of a multi-

channel-management are levelled. Merx & Bachem (2003, p.8-9) also demonstrate that there are potential risks if the roles and purposes of the distribution channels within the multi-channel system are poorly coordinated. Customers are irritated when they receive different information through different distribution channels. If the above mentioned limitations can be covered, rate integrity and rate parity can be maintained.

The issues of rate integrity and rate parity are essential in gaining customer trust and can be achieved through the application of multi-channel management systems which enable higher price transparency and effectively manage a variety of distribution channels (Tranter et al., 2009, p. 123). With the implementation of a multi-channel-management, hotels also need to consider applying a sufficient yield management within the multi-channel-management. Yield management is essential in all businesses that have to cope with fluctuating demand, fixed capacity and a market that can be segmented. Yield management is commonly applied to service industries, in particular, the hospitality industry (Lee-Ross & Johns, 1997, p. 66). Many yield management systems emphasise the need for an appropriate amount and depth of rate categories in order to maximize revenue for a hotel. This can be achieved by firstly examining the pricing structure of the market and later determining the hotel's positioning strategy based on demand, competition and costs (Boger Jr., Cai, & Lin, 1999, p. 256). Rate integrity is defined as being a strategy to maintain consistent prices for similar purchase conditions (Tranter et al., 2009). However, Boger et al. (1999, p. 261) place greater emphasis on the negotiation between the reservationist and the potential customer.

Thus, they define rate integrity as “the refusal to negotiate the rate once the reservationist had placed a caller into a rate category” (Boger Jr., Cai, & Lin, 1999, p. 261). In order to maintain rate integrity, strategic and tactical pricing strategies should be implemented, rather than purely basing pricing on supply and demand factors (Boger et al., 2000, p. 21). Understanding consumer behaviour is important because low rate integrity creates an environment in which guest satisfaction may decrease (Chen & Schwartz, 2008, p. 301). Rate parity is related to rate integrity and

can be defined as a strategy to maintain consistent prices across all distribution channels (Tranter et al., 2009, p. 123). If rate parity is applied appropriately, consumer trust and confidence for making reservations directly through the hotel's website may be increased (Gazzoli, Kim, & Palakurthi, 2008, p. 376). It is essential for hotel operations to maintain rate integrity and rate parity, especially on the hotel's website where an up-to-date image and unique profile needs to be presented. In order to gain customers trust, it is required that the information provided by the business is genuine and honest (Egger & Buhalis, 2008, p. 70). Furthermore, Egger & Buhalis (2008, p. 70) state that if rate parity is maintained, then potential customers are not confused and hold greater confidence in the hotel. Moreover, maintaining rate parity is essential due to the high price transparency provided by the internet.

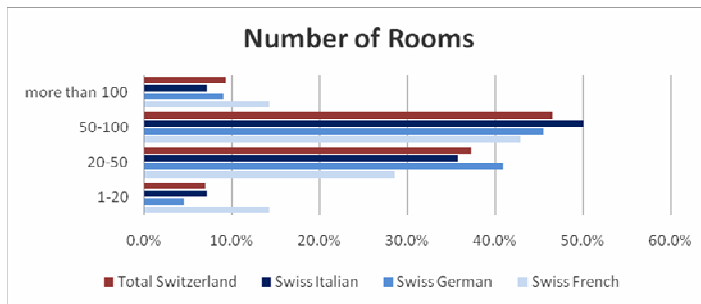
A direct comparison of competitors is feasible and strongly influences customer behaviour. Rate parity strengthens the brand and customer trust (Gazzoli, Kim, & Palakurthi, 2008, p. 376). Nevertheless, hotels still face problems in trying to implement this strategy. Pricing on the internet is very transparent, and increases the "shopping around" tendencies of potential customers (Gazzoli, Kim, & Palakurthi, 2008, p. 376). In conclusion, hotel companies, including SMEs, need to implement a multi-channel management system in order to remain competitive. Innovation and investment in the latest technology are essential to increase brand awareness and gain consumer trust and loyalty (Gazzoli, Kim, & Palakurthi, 2008, p. 384). However, SMEs still face many more limitations than branded hotel chains when implementing such diverse and complex distribution networks, mainly due to their lack of resources (Morrison, 2002, p. 6).

Survey

For this study, 147 Internet-mediated questionnaires have been sent to small to medium-sized hotels in Switzerland. The questionnaires are self-administered and are developed to explain the relationship between the issues of rate integrity and rate parity, and SMEs applying a multi-channel management strategy. The selection of the surveyed hotels is determined randomly by examining the major official travel websites of Switzerland. However, the number of hotels chosen from each of the Swiss territories is representative of the region's size and importance within the country. Thus, 77 Swiss German, 37 French Swiss, and 33 Italian Swiss enterprises are asked to complete the questionnaire.

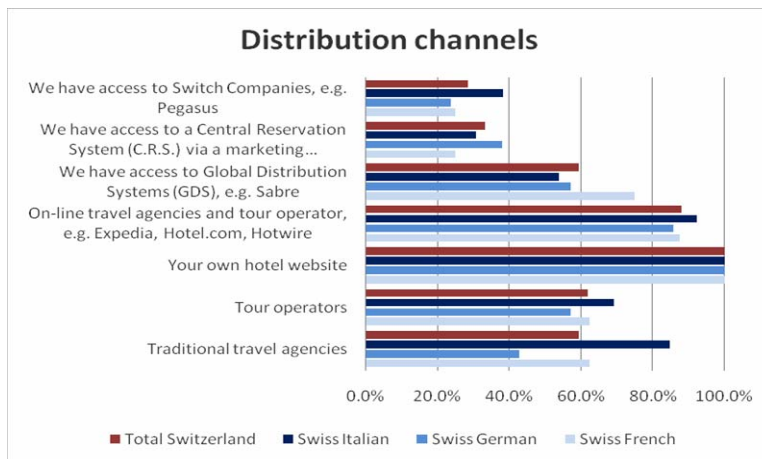
Firstly, the hotels are asked for general information about their property. Questions contained within this section include the size and category of the surveyed SME. Secondly, the distribution channels applied by each hotel in their multi-channel management are identified. Moreover, limitations which the hotels face by applying the identified distribution channels are examined. Lastly, each hotel is asked to provide information about rate integrity and rate parity as well as if the hotels strategies they employ help to ensure these issues. In order to be able to achieve reliability, the questionnaire has been continuously revised and pre-tested. Out of 147 surveyed hospitality SMEs, 47 participated, indicating a response rate of 31.97%. Responses from the participating 47 hospitality SMEs included 24 from the Swiss German region, 14 from the Swiss Italian region and 9 from the Swiss French region. All questionnaires collected show that the majority of SMEs in all areas of Switzerland comprise 50-100 rooms, as seen in Table 1. Moreover, most SMEs all over Switzerland are three- or four-star hotels.

Table 1, Number of Hotel Rooms



Next, the focus is on the chosen distribution channels, such as travel agencies, access to GDS etc.

Table 2, Distribution Channels



It is interesting to observe that all SMEs utilise both traditional and electronic distribution channels. Furthermore, all hotels have their own website and the majority also cooperate with online tour operators and travel agencies.

Next, the focus is on the awareness of rate integrity and rate parity within the participants (tables 3 and 4).

Table 3, Awareness of Rate Integrity

Awareness of Rate Integrity

	Frequency	Percent	Valid Percent	Cumulative Percent
Valid Aware of Rate Integrity – Yes	22	46,8	62,9	62,9
Awareness of Rate Integrity – No	13	27,7	37,1	100,0
Total	35	74,5	100,0	
Missing System	12	25,5		
Total	47	100,0		

Table 4, Awareness of Rate Parity

Awareness of Rate Parity

	Frequency	Percent	Valid Percent	Cumulative Percent
Valid Awareness of Rate Parity – Yes	23	48,9	67,6	67,6
Awareness of Rate Parity - No	11	23,4	32,4	100,0
Total	34	72,3	100,0	
Missing System	13	27,7		
Total	47	100,0		

Interestingly, the results demonstrate that just 62,9%, of the respective 67,6% of the participating hotel businesses are aware of rate integrity and rate parity. This might be explained by the fact that these both terms are quite new, and not that often understood so far. If it comes to the question of the importance of rate integrity and rate parity, the results as shown in tables 5 and 6, demonstrate that these both issues are seen as important but the high number of missing participants also indicates a lack of understanding and the effect that such techniques could benefit their operations. Rate parity scores a bit higher than rate integrity, however, not significantly more suggesting that the terms integrity and parity are generally not understood.

Table 5, Importance of Rate Integrity

Importance of Rate Integrity					
		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	Very important	7	14,9	20,6	20,6
	Important	16	34,0	47,1	67,6
	Not important	4	8,5	11,8	79,4
	Rate Integrity ensured	3	6,4	8,8	88,2
	N/A	4	8,5	11,8	100,0
	Total	34	72,3	100,0	
Missing	System	13	27,7		
Total		47	100,0		

Table 6, Importance of Rate Parity

Importance of Rate Parity					
		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	Very important	10	21,3	30,3	30,3
	Important	11	23,4	33,3	63,6
	Not important	5	10,6	15,2	78,8
	Rate Parity ensured	3	6,4	9,1	87,9
	N/A	4	8,5	12,1	100,0
	Total	33	70,2	100,0	
Missing	System	14	29,8		
Total		47	100,0		

When it comes up to the question of problems facing multi-channel management (table 7), there is a mixed picture. The participants have been asked to identify several choices out of a selection of six options including the miscellaneous option; no limit was put on the amount of options selected.

Some SMEs specify that they have not experienced problems with managing multiple distribution channels. Other businesses face problems referring to the use of multi-channel management. Also, the high number of non-responses to this question can be interpreted as concurrence with the other SME responses, which experience minimal difficulty in managing multiple distribution channels. This also suggests that the responses to the survey seems to be from people who use or want to use rate techniques but a large percentage do not - due to lack of understanding or consideration of not being relevant. Some businesses mainly encounter problems with their real-time internet distribution channels.

On the other hand, other SMEs mainly face limitations regarding their lack of negotiation power to ensure that intermediaries comply with their rate models. One third of all Swiss SMEs face difficulties with terms and conditions, and the high commissions costs. Interestingly, quite a high percentage of participants decide to opt for the option “other”, which might indicate that there might be more problems that SMEs are facing in regard of multi-channel management.

Table 7, Use of MCM

Use of MCM					
		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	Problems with Intermed. terms and conditions	4	8,5	16,0	16,0
	No negotiation power reg. Intermed	2	4,3	8,0	24,0
	Problems with Intermed. applying the business pricing model	2	4,3	8,0	32,0
	Problems with real-time distribution	3	6,4	12,0	44,0
	No direct access to Intermed.	2	4,3	8,0	52,0
	Other problems of application of MCM issues	6	12,8	24,0	76,0
	Probl. with Intermed. Terms, Neg.Power, IntermPricing	1	2,1	4,0	80,0
	Prob.with Interm. Terms and Real-time distribution	1	2,1	4,0	84,0
	Neg.Power with Intermed.and Real-time distr.	1	2,1	4,0	88,0
	Neg.Power and Real-time distr and Intermed.directAccess	1	2,1	4,0	92,0
	Neg.Power, IntermedPricing, Real-time distr. and Intermed.directAccess	1	2,1	4,0	96,0
	Intermed. Pricing and real-time distr.	1	2,1	4,0	100,0
	Total	25	53,2	100,0	
Missing	System	22	46,8		
Total		47	100,0		

The next analysis focuses on the correlation between the use of multi-channel management and the importance of rate integrity and rate parity (table 8).

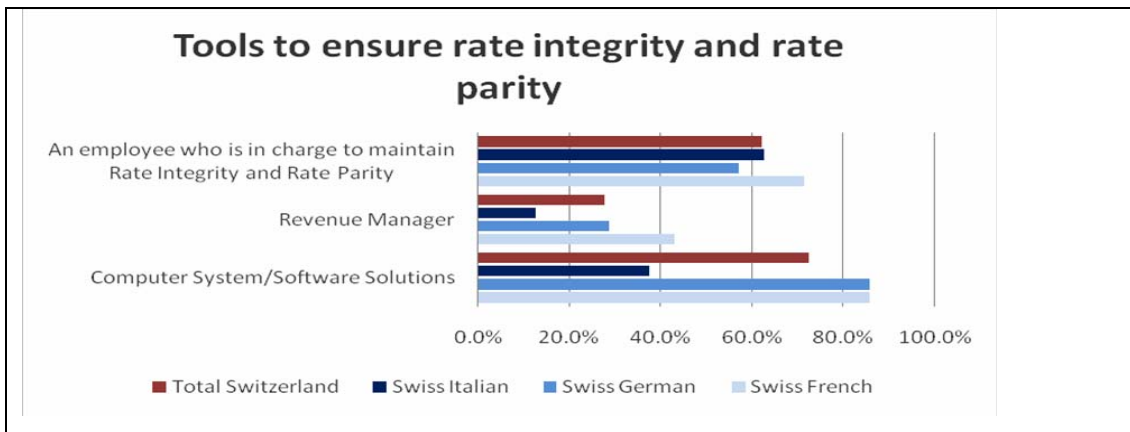
Table 8, Correlation

Correlations						
		Use of Distr Channels	Use of MCM	Importance of Rate Integrity	Importance of Rate Parity	Ensur. R.I . and R.P.
Use of Distr Channels	Pearson Correlation	1,000	-,196	,076	,107	,091
	Sig. (2- tailed)		,348	,675	,561	,634
	N	42,000	25	33	32	30
Use of MCM	Pearson Correlation	-,196	1,000	-,185	-,278	-,079
	Sig. (2- tailed)	,348		,423	,223	,747
	N	25	25,000	21	21	19
Importance of Rate Integrity	Pearson Correlation	,076	-,185	1,000	,966**	-,064
	Sig. (2- tailed)	,675	,423		,000	,732
	N	33	21	34,000	33	31
Importance of Rate Parity	Pearson Correlation	,107	-,278	,966**	1,000	-,068
	Sig. (2- tailed)	,561	,223	,000		,722
	N	32	21	33	33,000	30
Ensur. R.I . and R.P.	Pearson Correlation	,091	-,079	-,064	-,068	1,000
	Sig. (2- tailed)	,634	,747	,732	,722	
	N	30	19	31	30	31,000
** . Correlation is significant at the 0.01 level (2-tailed).						

The results show a positive significance regarding the use of distribution channels and the importance of rate integrity and rate parity (, 675 respective, 561). Same is valid for the issue of ensuring rate integrity and rate parity (sig value , 634).

Strategies on how to ensure rate integrity and rate parity have been also identified by the questionnaire, the results of which can be seen in table 9.

Table 9, Ensuring Rate Integrity and Rate Parity



The majority of all Swiss SMEs in the study's sample utilize computer systems and software solutions, in addition to delegate employees responsible for follow-up, as means to maintain rate integrity and rate parity. Less than one third of all Swiss hospitality SMEs employ a revenue manager to implement and/or oversee an appropriate yield management system to ensure rate integrity and rate parity.

Discussion

The survey has proven that SMEs in Switzerland implement multi-channel-management strategies. The results of the survey indicate that a majority of Swiss SMEs are aware of the need of a multiple distribution channel strategy. It has been identified that Swiss SMEs rely on both direct and indirect online distribution. Customers change their buying behaviour constantly (Ganesh, 2004, p. 145; Gazzoli, Kim, & Palakurthi, 2008, p. 376). Thus, the utilisation of multiple distribution channels is necessary to meet the varying customers' needs, independently of opening hours of travel agencies, the customers' location, urgency and personal preferences (Piramovsky, 2007, p. 11). However, the advent of the internet had increased the transparency of rates which has in turn forced hotels, not only in Switzerland, to better maintain rate integrity and rate parity to avoid giving potential customers an incentive to shop around on the internet (Gazzoli, Kim, & Palakurthi, 2008, p. 376). Furthermore, Swiss SMEs increase their visibility by utilising multiple distribution channels placing particular emphasis on electronic distribution channels.

The implementation of a multi-channel management system as accomplished by hospitality SMEs in Switzerland also empowers their competitiveness within the market place. Finally, Swiss SMEs have been surveyed about how much they are aware of rate integrity and rate parity. The majority of SMEs in Switzerland demonstrate concern over these issues and have stated that rate integrity and rate parity are either very important or important for their hotels. The implementation of a multi-channel management strategy is complex and difficult to achieve, and in addition, demands significant resources which SMEs normally lack – such as financial resources, human resources, and knowledge of strategic planning (Bastakis, Buhalis, & Butler, 2004, p. 152; Morrison, 2002, p. 6). In conclusion, this paper proves that Swiss SMEs are able to implement appropriate multi-channel management strategies to ensure rate integrity and rate parity and subsequently sustain customer trust, customer loyalty, as well as brand image. SMEs in Switzerland are aware of changing customer behaviours and the need to increase their visibility to their desired target markets by means of distribution via multiple channels. However, SMEs in Switzerland face limitations in their execution of multi-

channel-management strategies, such as a lack of negotiation power, difficulties in managing real-time distribution, access to third-party intermediaries, as well as terms and conditions, and high intermediary commission rates. However, these limitations are not only restricted to small to medium-sized enterprises but to all hotels applying multi-channel-management strategies (Schneider, 2009). Due to the awareness of Swiss SMEs in regard to rate integrity and rate parity, hotels are either implementing a computer system and software and/or ensure that an employee is responsible for the maintenance of rate integrity and rate parity. Gazzoli et al. (2008, p. 376) further emphasize the need to ensure rate integrity and rate parity as Swiss SMEs can benefit from the increased customer trust and loyalty that can be gained and maintained through doing so. Hence, rate integrity and rate parity are vital aspects within multi-channel-management due to the rising price transparency on the internet and the changing customer behaviour. SMEs in Switzerland are sufficiently aware of this and have responded through apply an appropriate multi-channel management strategy with the resources they have available.

Limitations

The actual study should be read with the following limitations in mind. First of all, the sample size was quite small to generalize findings. The survey shows tendencies which might be also explained by the use of the terminology, i.e. rate integrity and rate parity. It might be interesting to conduct a survey to compare results of bigger and branded hotels in a higher category. Secondly, the sample was a convenience sample; other research might want to go for a probability sample which will increase validity. Also, the survey was conducted in Switzerland, hence other researchers might want research other countries.

Recommendations for further research

Further research could examine the importance of rate integrity and rate parity as a measurement of multi-channel-management. This paper has already identified major aspects and reasons why rate integrity and rate parity need to be ensured, however, their correlation and impact might depend upon certain characteristics of SMEs in terms of their location and product size. Furthermore, measures of how rate integrity

and rate parity can be maintained could be also included in further research since this area of study has not been covered by this paper.

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