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A Comparative Analysis of Wholesale and Retail Central Reservation System Booking Models

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ABSTRACT

Destination Marketing Organizations (DMOs) are increasingly entering the world of e-commerce by offering reservation capabilities directly from their websites. A measure of success for DMOs is the revenue generated by reservations as a result of their implementation of a central reservation system (CRS). This paper analyzes and compares the return from two models of CRS: a wholesale model, managed centrally by the DMO; and, a retail model, managed by individual properties. Findings support the hypothesis that an integrated model achieves a higher return than a de-centralized model. A number of factors contribute to the superior performance, such as experiential packaging, advanced discounting, value-added mechanisms, and overall, a more consistent marketing message supporting its CRS success.

Keywords: *central reservation system (CRS), DMO performance, packaging*

INTRODUCTION

Destination Marketing Organizations (DMOs) have the responsibility of generating and increasing tourist visitation for a given geographic area by “developing a unique image of the area, coordinating most private and public tourism industry constituencies, providing information to visitors, and leading the overall tourism industry at a destination” (Prideaux & Cooper 2002, as quoted in Gretzel, Fesenmaier, Formica, & O’Leary, 2006, p. 117). Although DMOs can operate at the local, regional or national level, the focus of this paper is specifically on city destinations.

DMOs have faced an increasing number of challenges since the beginning of the new millennium, not the least of which has been caused by the rapid advances in technology and the concomitant impacts on how consumers search and buy pleasure travel. This has been driven in part by the increasing number of people who use the internet to obtain travel information and to make their travel arrangements. In Canada, the percentage of people who do so has increased from 63.1% of adults 16 years and older in 2005 to 66.2% in 2009 (Statistics Canada, 2010). Therefore, DMOs are progressively entering the world of e-commerce by offering reservation capabilities directly from their websites. A measure of success for DMOs is the revenue generated by reservations as a result of their implementation of a central reservation system (CRS). This paper will analyze and compare the return from two models of CRS: a wholesale model, managed centrally by the DMO; and, a retail model, managed by individual properties.

LITERATURE REVIEW

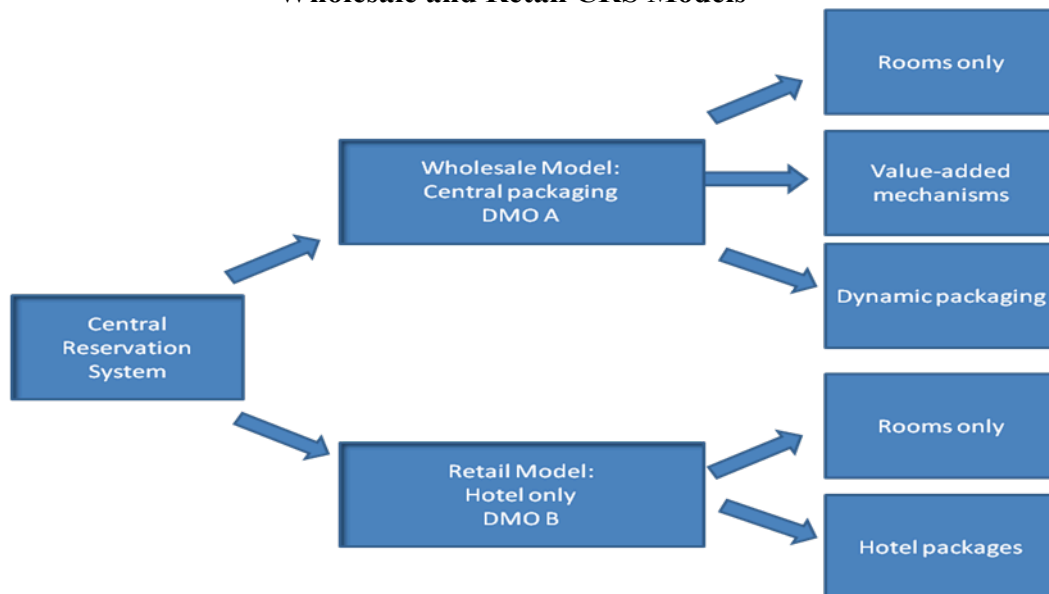
Competition among destinations has been defined as the perceived substitutability of products from the perspective of consumers (Day, Shocker, & Srivastava, 1979), and therefore all destinations compete with each other at different levels of intensity. However, this competition has increased substantially over the last decade as a rapidly increasing number of destinations have entered the global market and the expectations of travelers have also increased due to their greater travel experience and sophistication. This has led to a number of research studies proposing approaches for determining the factors that lead to a destination's competitiveness. Perhaps the most comprehensive framework is that developed by Ritchie and Crouch over a period of 10 years and refined over another decade (see, for instance, the following key publications: Ritchie & Crouch, 2000; Crouch, 2011). Others have looked at performance gap analysis or benchmarking (e.g., Fuchs, 2002; Kozak, 2002), i.e., determining best practices regardless of location (Walleck, O'Halloran, & Leader 1991). However, Kozak (2004) concluded that "[T]here are a limited number of benchmarking studies in tourism solely focusing on measuring the performance of tourist destinations and providing methods to improve it" (p. 282). Yet, he, too focuses more on assisting destination managers to gain competitive advantage by monitoring the performance of tourism products and services compared to that of previous years and other foreign destinations and reviewing positioning strategies, rather than on the internal practices of a DMO that would improve its own performance. One of these factors, missing to date in most studies, needs to be the use of information technology in driving revenues at the destination level.

As noted by Elliot and Joppe (2010), the advancements in technological capabilities have moved DMOs from being primarily marketers and information providers, to being product distributors, sellers, and revenue generators. The adoption of CRSs by DMOs at national, state and local levels have provided these organizations with sophisticated tools to operate effectively in today's e-business environment. Yet research by Verma and McGill (2011) show that less than three-quarters of destination firms provide online purchasing capability and even fewer (about 45%) provide e-commerce functionality.

With an increase in cost-effective reservation systems available, DMOs have the capability to introduce into the marketplace offerings which they control. From the images to the descriptions, the DMO is able to manage the system offerings, which can be instantly propagated across all members in the CRS. This type of "wholesale" system enables an integrative

marketing approach, supports partnerships of large and small players, allows for dynamic packaging, and has the potential to add consumer value so that DMOs can effectively compete for bookings against the large online travel agencies (OTAs) such as Expedia and Priceline (Figure 1). Packages administered by the DMO (“central packages”) allow DMO staff to customize the components (attraction, retail, and dining, etc.), dates of availability, and the participating hotels for each package. Less integrated DMOs or destinations where hotels prefer to sell through their own websites, calls for a “retail” system. In this approach, hotels have the capability to load property specific offers, thereby de-centralizing the CRS control. Each participant in the system can manage offers and rates within their own micro-site, which are then bundled and presented to the consumer seamlessly (Figure 1). While numerous authors have written about the relationship between the hotel industry and OTAs in both the academic (e.g., O’Connor & Murphy, 2009; Withiam, 2011) and trade press (e.g., Gupta, 2011; Starkov, 2011), the relationship between the hotel industry and a DMO CRS has not been addressed. However, as several of these authors point out, the distribution costs of the various channels vary widely, with OTAs being by far the most expensive.

Figure 1
Wholesale and Retail CRS Models



METHODOLOGY

To compare the performance of a wholesale and a retail model, bookings generated by two DMO systems were accessed from the database of a central reservation system provider. Founded in 1998 and based in Niagara Falls, Canada, Meridian Reservation Systems provides reservation and ticketing technology to destination marketing organizations, major attractions, travel marketers, and accommodation providers. Two Meridian DMO clients, one using a wholesale model system (DMO A) and one using a retail model system (DMO B) were selected for this comparative analysis. The DMOs are similar in size and market conditions, yet manage

different CRS models reflecting their structural preferences, thus allowing for a comparison of their performance that is influenced, in large part, by their choice of CRS model. Booking data from the second quarter (April to June) of 2011 through to the first quarter (January to March) of 2012 was analyzed in order to capture all seasons and a complete 12 months of the most current booking data available for both destinations.

Table 1
Comparison of Wholesale versus Retail CRS Model Bookings¹

1.1 DMO A Wholesale Model

	CRS Bookings	Q2 Apr-Jun '11	Q3 Jul-Sep '11	Q4 Oct-Dec '11	Q1 Jan-Mar '12
<i>a</i>	Regular Hotel Bookings	993	1,866	553	1078
<i>b</i>	Central Package Bookings	813	1,485	341	868
<i>c</i>	Property Package Bookings	0	0	0	0
<i>d</i>	Total Bookings $a + b + c$	1,806	3,353	894	1946
<i>e</i>	Total Visits to Booking Site ²	55,737	67,786	28,868	59,360
<i>f</i>	Conversion d/e	3.2%	4.9%	3.1%	3.3%
<i>g</i>	Total Regular Sales	\$292,502.15	\$504,232.04	\$149,718.60	\$332,453.65
<i>h</i>	Total Package Sales	\$308,045.44	\$534,669.71	\$127,421.19	\$323,351.01
<i>i</i>	Average Regular Sales g/a	\$294.56	\$270.22	\$270.74	\$308.40
<i>j</i>	Average Package Sales $h/(b+c)$	\$378.90	\$360.05	\$373.67	\$372.52
<i>k</i>	Package Value-Added $(j-i)/i$	29%	33%	38%	21%
<i>l</i>	Average Overall Booking $(g+h)/d$	\$332.53	\$309.85	\$310.00	\$337.41

1.2 DMO B Retail Model

	CRS Bookings	Q2 Apr-Jun '11	Q3 Jul-Sep '11	Q4 Oct-Dec '11	Q1 Jan-Mar '12
<i>a</i>	Regular Hotel Bookings	347	1,352	433	473
<i>b</i>	Central Package Bookings	0	0	0	0
<i>c</i>	Property Package Bookings	27	65	20	8
<i>d</i>	Total Bookings $a + b + c$	374	1,417	453	481
<i>e</i>	Total Visits to Booking Site ²	54,713	76,209	47,163	47,177
<i>f</i>	Conversion d/e	0.7%	1.9%	1.0%	1.0%
<i>g</i>	Total Regular Sales	\$90,283.56	\$325,505.45	\$104,351.19	\$123,767.93
<i>h</i>	Total Package Sales	\$7,800.32	\$19,257.37	\$5,235.53	\$2,144.29
<i>i</i>	Average Regular Sales g/a	\$260.18	\$240.76	\$241.00	\$261.67
<i>j</i>	Average Package Sales $h/(b+c)$	\$288.90	\$296.26	\$261.78	\$268.04
<i>k</i>	Package Value-Added $(j-i)/i$	11%	23%	8.6%	24%
<i>l</i>	Average Overall Booking $(g+h)/d$	\$262.26	\$243.30	\$241.91	\$261.80

¹ CRS bookings by visitation date (April 1, 2011 to March 31, 2012)

² Netsight tracked visitation count (April 1, 2011 to March 31, 2012)

FINDINGS

Table 1 presents actual CRS booking results for DMO A (Table 1.1) and DMO B (Table 1.2). Firstly, it must be noted that DMO A's regular bookings are higher than those of DMO B, ranging from a low of 553 in quarter 4, to a high of 1,866 in quarter 3, the summer season (row a). While DMO B experiences a similar cycle of bookings, with a peak in quarter 3 of 1,352 regular bookings, in all quarters DMO B's bookings are, at minimum, 20% less than those of DMO A's. The difference is even greater with regard to package bookings. On average, DMO A books 877 packages a quarter, whereas DMO B books only 30 packages on average a quarter (rows b and c). Yet, in terms of consumer visits to each booking site (row e), the totals are very close, and even slightly higher for DMO B at 56,316 on average a quarter, in comparison to 52,938 on average a quarter for DMO A (Table 2). The net result is a conversion rate of bookings per site visit that is more than three times higher for DMO A (average conversion of 3.6%) than for DMO B (average conversion of 1.0%).

DMO A also achieves higher average sales per booking, both regular and package, than DMO B (Table 2). Indeed, its added-value for package sales, averaging \$371.29 per package booked, is 30% higher than its regular sales. DMO B's package sales, averaging \$278.75, are only 11% higher than its regular sales. Even when reducing the percentage difference in bookings between DMO A and DMO B by the 14% difference between the DMO's regular sales, to account for market factors, DMO A's package bookings are still 19% higher than DMO B's package bookings. Despite DMO B's slightly higher number of visits to its booking site (average of 56,316 versus 52,938 per quarter), DMO A outperforms DMO B in terms of conversion, total sales by volume, average sales per booking, and package value-added.

Table 2
Comparison of DMO A and DMO B

CRS Bookings	DMO A	DMO B
Total Bookings ¹	7,606	2,151
Total Sales	\$2,404,586.10	\$522,037.96
Total Visits to Booking Site ²	211,751	225,262
Conversion	3.6%	1.0%
Average Quarterly Bookings - Regular	2,000	681
Average Quarterly Bookings - Package	877	30
Average Quarterly Visits to Booking Site	52,938	56,316
Average Regular Sale	\$285.98	\$250.90
Average Package Sale	\$371.29	\$278.75
Package Value-Added	30%	11%
Average Sale per Booking	\$316.14	\$242.70

¹ CRS bookings by visitation date (April 1, 2011 to March 31, 2012)

² Netsight tracked visitation count (April 1, 2011 to March 31, 2012)

CONCLUSION

The key distinction between the wholesale and retail model of CRSs is the locus of control of the offerings. For many DMOs, that control rests with individual properties for reasons that range from the political to the philosophical. A more integrated, centralized approach, such as the wholesale model described here, has been advocated by many for years, believing it to be the more efficient and effective method of marketing, and generally, of management. Yet, integration and centralization are difficult concepts to quantify and measure. Thus, empirical evidence of the superiority of the wholesale model is lacking. While this analysis is limited to a comparison of two DMOs, it does support the hypothesis that an integrated model, in the context of CRS, achieves a higher return, both for the destination as a whole and for the DMO, than a de-centralized model.

For reasons of confidentiality, the DMOs have not been identified in this paper. However, the researchers' access to the DMOs highlighted a number of reasons to explain DMO A's superior performance, such as experiential packaging, advanced discounting, value-added mechanisms, and overall, a much more consistent marketing message. Therefore, in a world of heightened competition among destinations and increasing pressures on DMO budgets, serious consideration should be given to adopting a wholesale model for reservations with specific attention paid to the factors that contribute to a DMO's CRS success.

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