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# An Examination of the Relationship between Online Travel Agents and Hotels: A Case Study of Choice Hotels International and Expedia.com

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## Abstract

Although traditional travel agents have played an important role as proxies enabling travelers to make connections with hotels, the emergence of the internet has changed the traditional relationship between hotels and travel agents. Instead of a traditional agent–principal relationship, online travel agents (OTAs) seem to act as more than just intermediaries and more as business partners or vendors. Scholars have previously observed troubled, if not hostile, relationships between hotels and OTAs. This article reports a case study analyzing online comments on the 2009 feud between Choice Hotels International and Expedia.com. This analysis identified eight themes in three overall categories: the background to the feud (i.e., characteristics of the hotel industry, current business environment, Expedia’s business practices), the perspectives of hospitality industry professionals on the feud (i.e., wake-up call for hoteliers, Choice Hotels’ decision), and expectations concerning the nature of the relationship between hotels and OTAs (i.e., a symbiotic relationship between hotels and OTAs, experience of dealing with guests who book through OTAs and Expedia, and recommendations for hotels). Chief among the study’s conclusions is that hotels must find ways to make the most effective possible use of available technology and distribution channels, and perhaps even form consortia to share information about third-party distribution channels.

## Keywords

online travel agents, Choice Hotels International, Expedia, agency problems, bargaining power

Following the path of the airlines, the hotel industry now makes extensive use of the internet for distribution. To take just one destination, a recent report indicates that 69 percent of 3,007 respondents visiting Las Vegas in 2009 used the internet to book their accommodation, increasing from 50 percent in 2008 (GLS Research 2009). Among those who made online reservations for accommodation in Las Vegas in 2008 and 2009, 20 percent used a hotel website, representing a better than 50 percent decrease from 48 percent in 2005 and 40 percent in 2006. Much of that web activity switched to online travel agents (OTAs), such as Hotels.com, which saw 24 percent of reservations in 2009, and Expedia, with 19 percent in 2009 (up from 20 percent for Hotels.com and 15 percent for Expedia in 2008). This increasing demand from customers seeking to utilize OTAs is not surprising given the convenience they offer (Law, Leung, and Wong 2004).

The hotel industry has long worked with what are now called traditional travel agents for better management of access to potential customers (Buhalis 2000). Transaction cost theory suggests that hotels should benefit from a

collaborative relationship in which experts (i.e., travel agents acting as intermediaries) can economically perform the distribution function, thereby enabling the hotel to focus its expertise on its core service and accommodation functions (Anderson 1985; Donaldson 1990). However, information asymmetry, when one party has greater information than the other, may mean that transaction cost theory fails to model the agent–principal relationship in this instance. Especially when agents have more information than principals, principals are likely to have difficulties in governing their agents, thereby raising the prospect that the agent is not serving the principal’s best interest (Coase 1937; Eisenhardt 1989; Shaw, Gupta, and Delery 2000; Combs 2008; Priego and Palacios 2008). Given the importance of distribution for hotels, travel agents have the opportunity to

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play a powerful role in that process (Middleton et al. 2009). Traditional travel agencies are generally dispersed, but OTAs constitute a relatively consolidated channel. We have seen considerable research regarding the relationship of OTAs and the hotel industry, but scant research has considered principal–agent issues. Buhalis (2000) examined the conflicts in the distribution channel between hotels and tour operators in the Mediterranean region and postulated that hotels depending on tour operators for the majority of their customers were more likely to have problems with tour operators, but failed to specify what led to such conflicts. Other researchers have overlooked principal–agent issues (Medina-Muñoz and García-Falcón 2000; Medina-Muñoz, García-Falcón, and Medina-Muñoz 2002).

Even studies that highlight the importance of research on relationships between online intermediaries and hotels (Carroll and Siguaw 2003; O'Connor 2003) have a gap in identifying what makes the hotel–intermediary relationship problematic. The objectives of this study were thus to address that research gap regarding the hotel–OTA relationship.

We framed our study in terms of the principal–agent relationship. Through that lens, we analyze online comments from Choice Hotels International and Expedia.com during a month-long contract standoff that became public in October 2009, when Expedia delisted Choice Hotels from its websites after Choice Hotels refused to accept Expedia's new terms and conditions (Hotels 2009). In conducting this study, we adopted a qualitative case study approach to analyze opinions available online on the assumption that this would provide a rich vein of information about those aspects of the parties' business relationship that would not otherwise be available. A case study approach is the only available methodology for this study, and it allows any underlying patterns to be traced and may uncover unforeseen problems and unexpected opportunities. We conclude our analysis by suggesting managerial implications and ways to reach equilibrium in business relationships.

## Background

### *OTA Business Models and Expedia.com*

The third-party OTAs that have grown up to serve the hotel industry are organizations that have no physical outlets but provide their services solely through the internet. Familiar examples include Expedia.com, Orbitz.com, Priceline.com, and Travelocity.com.

The popularity of OTAs is attributed to their client-centric approach (Law and Leung 2000) and consumers' growing confidence in online purchasing (Kim, Bojanic, and Warnick 2009). In distributing hotel rooms, OTAs use one or more of the following business models (Law, Chan, and Goh 2007; O'Connor, 2002, 2003):

1. The merchant model
2. The agency (or commissionable) model
3. The opaque model

Under the merchant model, the OTA purchases hotel rooms at a discount and marks them up for sale at a profit (Tranter, Stuart-Hill, and Parker 2009). In so doing, the OTA accepts the risk of unsold inventory and earns revenue when a room is booked.

Under the agency model, OTAs arrange bookings for inventory held by the hotel but made available to the OTAs at agreed-on prices, for which they receive an agreed-on commission on each transaction (Tranter, Stuart-Hill, and Parker 2009). Payment to the OTA occurs on checkout. This model is the reason that our case study uses an agent–principal lens.

An OTA using the opaque model (most famously, Priceline) has an agreement with a hotel to distribute hotel rooms, subject to the hotel's agreement to the offered price. When Priceline accepts bids from buyers, the hotel can decline the transaction. If it accepts, Priceline matches buyers' bids with the lowest bid from the seller to maximize Priceline's profits through price differentials. The OTA's business involves having information about the buyer that is unavailable to the seller and information about the seller that the buyer cannot know. The opaque model enables sellers to generate revenue without interfering with their existing distribution channels or retail pricing structures (Lanz and Das 2002). The agency and opaque models are also called information intermediary models, and these are subject to the information asymmetry that we mentioned above. Some popular OTAs and their business models are summarized in Exhibit 1.

Expedia employs both the merchant and agency models (Lanz and Das 2002). Most critically, hotels participating in the Expedia Special Rate (ESR) program have priority to list their inventory at the top of Expedia's hotel search result pages. The fact that would-be buyers rarely scan down the results page and almost never click to the second page makes this arrangement important.

With headquarters located in Bellevue, Washington, Expedia launched its eCommerce business in 1996 (Yahoo!Finance 2010). Since then, Expedia has provided direct access to a selection of travel products and services including more than 60,000 hotels, over 130 airlines, car rental firms, cruise operators, and tour packages (Expedia 2010). Its parent company, Expedia, Inc., has a portfolio of brands including Hotels.com, Hotwire.com, TripAdvisor Media Network, Expedia Affiliate Network, Classic Vacations, Expedia Local Expert, Expedia CruiseShip Centers, Egencia, eLong, Inc. (eLong), and Venere Net SpA (Venere). Expedia, Inc. generated earnings of US\$2.96 billion in 2009, compared to US\$2.94 billion in 2008 (Yahoo!Finance 2010).

### Exhibit 1: Popular OTAs and Their Business Models

Popular Online Travel Agents	Affiliated Company	Business Model	Average Daily Reach	Alexa Traffic Rank	Major Traffic Country
Expedia.com	Expedia, Inc.	Merchant & agency	.2959	380	USA
Hotels.com	Expedia, Inc.	Merchant & agency	.1505	871	USA
Hotwire.com	Expedia, Inc.	Opaque	.0825	1,798	USA
Booking.com	Priceline.com, Inc.	Agency	.2989	352	UK
Priceline.com	Priceline.com, Inc.	Opaque	.1402	783	USA
Orbitz.com	Orbitz Worldwide, Inc.	Merchant	.1244	848	USA
Cheaptickets.com	Orbitz Worldwide, Inc.	Merchant	.0320	3,957	USA
Ebookers.com	Orbitz Worldwide, Inc.	Merchant	.0108	15,622	UK
Travelocity.com	Sabre Holdings	Opaque, merchant & agency	.1152	1,001	USA
Lastminute.com	Sabre Holdings	Merchant & agency	.0610	1,991	UK
Zuji.com	Sabre Holdings	Merchant & agency	.0014	155,982	Hong Kong

Note: Based on Alexa.com data as of March 18, 2011. Average daily reach refers to the percentage of global internet users who visited the site over the past three months. Alexa traffic rank is based on the average daily number of visitors to and page views on the site. Major traffic country indicates the country with the highest average daily number of visitors and page views on the site among other countries.

#### *Choice Hotels International*

Choice Hotels is one of the world's largest U.S.-based franchisers of hotel properties, with more than 485,000 rooms across its 6,000-plus hotels (Choice Hotels 2010). With headquarters located in Silver Spring, Maryland, Choice Hotels created industry history by initiating the now common hotel industry practice of offering a portfolio of lodging brands in different product tiers (Livingston 1985). It neither owns nor operates any of the properties bearing its brand flags, which include Ascend, Comfort Inn, Comfort Suites, Quality, Sleep Inn, Clarion, Cambria Suites, MainStay Suites, Suburban, Econo Lodge, and Rodeway Inn. Exhibit 2 lists the star rating of each brand listed on Expedia. The revenue and profits of Expedia, Inc. exceed those of Choice Hotels (see Exhibit 3).

Choice Hotels supports two distinct networking functions that are available to its franchisees for room distribution. Its central website, [www.choicehotels.com](http://www.choicehotels.com), enables customers to reserve rooms at any Choice franchise accommodation (Stallings 2005). Hotel brands' websites have come to be known generically as "Brand.com." The company's central reservation system automatically presents the most appropriate hotel or hotels based on a guest's location, price range, or chain scale request. Each individual hotel affiliated with Choice Hotels also takes bookings via its local reservation systems (e.g., [www.clarionhotel.com](http://www.clarionhotel.com), [www.suburbanhotels.com](http://www.suburbanhotels.com)), which are connected to the chainwide system to ensure accurate room availability.

#### *The Feud between Expedia and Choice Hotels*

The feud between Expedia and Choice Hotels first drew public attention when Expedia dropped all Choice Hotels

inventories from its websites on October 15, 2009, after contract negotiations broke down (Hotels 2009). While the details were not officially disclosed, information about the negotiations was available from numerous sources. An interview with Steve Joyce, CEO of Choice Hotels, revealed, "They [Expedia] were asking for outrageous things. . . . They demanded last room availability, meaning regardless of strength of market, if we don't expose the last room at that discounted price, we are not in good standing. . . . They said we can never offer a price anywhere we don't offer to them . . . they would become our revenue manager" (Hotels 2009). In response, Expedia stated, "At this time, Expedia Inc. is no longer offering Choice Hotels International properties on our sites. This is due to an inability to reach an agreement on the terms of a new contract with Choice, despite numerous extensions granted by Expedia. . . . While it is not our policy to discuss the terms of contract negotiations publicly, many of the issues under discussion were principles which both parties had been operating" (Hotels 2009). Expedia considered the negotiation breakdown to be "unfortunate [in] that Expedia and Choice were not able to come to an agreement on terms of working together going forward, especially considering the potential adverse effects that this may have on many of Choice's individual franchisees."

From these statements, we infer that pricing control was at the center of the feud. Expedia wanted room rate parity, under which Choice Hotels would be banned from offering greater discounts or asking for higher room rates than those available on Expedia. Expedia also demanded last room availability, which would have required Choice Hotels to make its last room available to Expedia's customers at the OTA's discounted price, regardless of the pricing recommendations of the hotel's own revenue management system.

## Exhibit 2: Star rating of Choice Hotels International brands listed on Expedia.com

Brand	Star Rating	Rating Guideline
Econo Lodge; Rodeway Inn	1.5–2.5	These budget properties offer basic accommodation. Most offer 24-hour reception, a daily housekeeping service, TVs, telephones, clothes racks or small closets, and private bathrooms—possibly with showers only. If offered, on-site dining is usually limited to a continental breakfast.
Comfort Inn; Comfort Suites; MainStay Suites; Quality; Sleep Inn	2.0–3.0	This classification contains limited-service properties (often all-suite economy properties in North America) offering upgraded quality and expanded comfort, without the amenities of full-service hotels such as a restaurant or bell staff. An expanded continental breakfast including hot items is often served in a breakfast room. In Asia, multiple on-site dining options may be offered, and at times in the Americas and Europe basic full-service properties will appear.
Clarion	2.5–3.5	Properties in this classification place a greater emphasis on comfort and service, with many offering an on-site restaurant and bar. Baggage assistance is often available. Guestrooms typically feature more space, comfortable seating, and better quality bedding. Bathrooms are often larger, with shower-tub combinations and expanded counter space.

Note: The star ratings shown are based on ratings from Expedia and are for reference only. The ratings vary depending on the hotel's location, regardless of the brand. Expedia star ratings range between 1 and 5. The Cambria Suites, Suburban, and Ascend Collection brands are not listed on Expedia.

## Exhibit 3: Revenue and Profits Comparison between Expedia, Inc. (EXPE) and Choice Hotels International (CHH)

Year	Revenue		Profit	
	EXPE	CHH	EXPE	CHH
2009	2,955,426	564,178	299,526	98,250
2008	2,937,013	641,680	(2,517,763)	100,211
2007	2,665,332	615,494	295,864	111,301
2006	2,237,586	539,903	244,934	112,787
2005	2,119,455	472,098	228,730	87,565

Source: Yahoo! Finance (2010).

Note: Unit: thousands of U.S. dollars. Financial information for Expedia, Inc. is presented because revenue and profits for Expedia.com are unavailable.

The feud lasted for about a month and ended when Choice Hotels signed a new three-year contract with Expedia on November 12, 2009 (Sniegowski 2009). Details of contracts between hotels and OTAs normally remain undisclosed due to business policy and binding legal obligations. We nevertheless were able to analyze this feud using content analysis of web postings. The findings are presented in the following sections.

## Method

We first conducted extensive online research during October 2009 to locate all the news items on the Choice–Expedia case, using keywords that included *Choice*, *hotels*, *Expedia*, *OTA*, *online*, *travel*, *agent*, *contract*, *feud*, *dispute*,

and *negotiation*. Our data analysis used only comments or user-generated contents (UGCs), not news articles. In this instance, we believed UGCs from industry-specific online travel magazines and blogs would carry more inside information related to the feud because their content generators and readers were likely to be the stakeholders of this feud. Moreover, the UGCs used in this study were initiated with comments on the news articles, and thus it is likely that using comments generated by readers inherently covers news articles.

We collected comments generated after the negotiations between Choice Hotels and Expedia broke down and before they reached a new agreement, essentially between October 21 and 29. By following keywords and assessing the relevance of each item, we identified seven data sources, comprising two blogs and five online magazines, where readers were able to leave comments after they read the article on the Choice–Expedia case. The five online magazines from which we collected comments were *Hotels*, *HotelNewsNow*, *Hotelworld Network*, *PhoCusWright*, and *Tnooz-Talking Travel Tech*, and the two blogs originated from *Hotels* (see Exhibit 4).

From these sources, our search identified 137 written comments, of which 129 were relevant to the case study. We were able to determine that 31 comments were written by hotel industry professionals, including hotel managers, hotel owners, and consultants, and the remainder were entirely anonymous, using screen names.

We conducted content analysis to classify and reduce the comments into themes and categories and then used ATLAS.ti 5 software to classify the data into themes (see Exhibit 5). ATLAS.ti 5 is a data organizer that helps count word frequency and network the data.

**Exhibit 4:**  
**Characteristics of Online Magazine Sites Utilized for Data Collection**

Online Magazine Site	Alexa Traffic Rank	Traffic Rank in United States	Top 5 Impact Search Queries
<i>Hotels</i> magazine (hotelsmag.com)	177,544	56,450	Hotels; hotel magazine; hotel industry; hotels.com; hotel magazine
<i>HotelNewsNow</i> (hotelnewsnow.com)	106,065	31,954	Hotel news; news now; travel research; smith travel research; hotel industry news
<i>Hotelworld Network</i> (hospitalityworldnetwork.com)	409,884	160,379	Not available
<i>PhoCusWright</i> (phocuswright.com)	87,778	47,539	Online travel market size; online travel market; business travel; online travel; rue la la
<i>Tnooz-Talking Travel Tech</i> (tnooz.com)	11,642	8,275	Orbitz; kayak flights; preview web page's search results; top travel websites; bing travel

Source: www.alexa.com.

Note: The Alexa traffic rank reflects both the number of users who visit the site and the number of pages on the site viewed by those users over three months of aggregated historic traffic data from all users. Users refer to Alexa toolbar users.

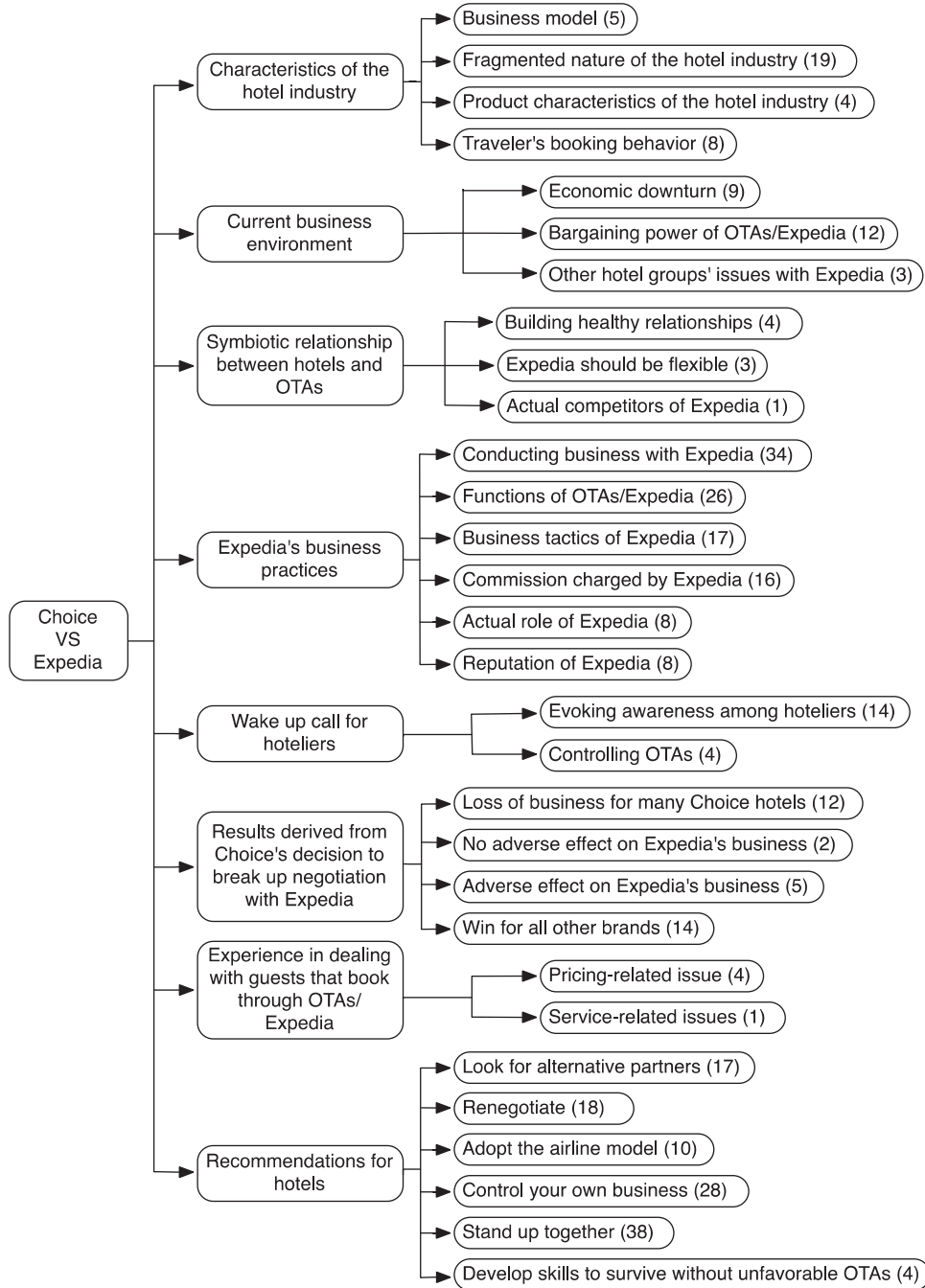
**Exhibit 5:**  
**Most Frequently Used Keywords or Phrases in Comments Analyzed for Choice–Expedia Case**

Keyword	Frequency	Keyword	Frequency	Keyword	Frequency
hotel	204	booking	19	companies	13
feud	94	economy	19	decide	13
stand	74	owners	19	pay	13
losers	73	site	19	war	13
winners	73	control	18	service	13
deliver	61	support	18	show	13
brand	47	agreement	17	same	13
rate	44	margin	17	commission	12
business	42	own	17	market	12
owners	36	price	17	sales	12
back	34	last	16	against	11
revenue	31	property	16	airline	11
work	30	contract	15	manager	11
franchisees	29	marketing	15	problem	11
response	29	money	15	sell	11
post	28	negotiate	15	demand	10
hoteliers	28	offer	15	franchisor	10
travel	27	party	15	option	10
inventory	22	hope	14		
chains	21	way	14		

ATLAS.ti 5's network function helps establish graphical relationships among words. By using the words "control," "hotel inventory," "against," and "travel" as network nodes, we could link them to each other based on our understanding of the comments in which these nodes appeared. For example, "travel" agents were the subject of "control," and "hotel inventory" was the object of "control." "Hotel" was the subject of being "against" "travel" agents. The network graphically represents the nature of the relationships between concepts.

Finally, we employed inductive data analysis to code the content of the data independently based on the networks established (e.g., "awareness," "opportunity," "suggestion," "business situation," "solution for hoteliers"). We then compared the coded lists to build a composite master list of main categories and themes, modifying the coding until we reached consensus. In subsequent discussions, we validated themes or main categories by comparing them with those given by other commentators and by comparing them through observation or

**Exhibit 6:**  
Summary of analysis



analysis of secondary documents (Mehmetoglu and Altinay 2006). After revisiting the coded and categorized statements and identifying their interrelationships, a framework was

developed. We carefully interpreted and cross-validated the statements, while the areas of difference or disagreement were used as opportunities to clarify the coding list.

## Findings

### Overall Findings

The content analysis showed that eight comments supported Expedia, forty-nine supported Choice Hotels, forty-three opposed Expedia, and five opposed Choice Hotels, while twenty-four supported neither side. The eight themes and associated subcategories that emerged during the data analysis are listed in detail in Exhibit 6. The third level in Exhibit 6 presents issues related to the Expedia–Choice Hotels case. The numbers in parentheses refer to the number of times the phrases were used in the documents in the corresponding category. As we discuss next, the eight themes that emerge from the content analysis were characteristics of the hotel industry, the current business environment, the symbiotic relationship between hotels and OTAs, Expedia’s business practices, a wake-up call for hoteliers, results derived from Choice’s decision to break up negotiations with Expedia, experience in dealing with guests via OTAs (specifically, Expedia), and recommendations for hotels.

### Theme 1: Characteristics of the Hotel Industry

Characteristics of the hotel industry were discussed under four subcategories: business model, fragmented nature of the hotel industry, product characteristics of the hotel industry, and travelers’ booking behavior. Commentators mentioned that many hotels still operate their businesses in ignorance of or without fully utilizing the capabilities and potential of the internet. Wrote one, “Expedia epitomizes the worst in greedy business moguls but they built their business model while the big hotel magnates continued with their business as usual approach and ignored the internet” (from a Choice Hotels franchisee). The fragmented nature of the hotel industry, which involves the many ownership structures and numerous small operators, drew the most comments in this category. Fragmentation potentially prevents industry players from making a stand together. As one commentator stated, “The fragmented nature of the industry coupled with the fear of starvation will prevent any major peasant revolt” (from a commentator whose profession is unknown, which we call “unknown commentator”). Product characteristics of the hotel industry included the perishable nature of hotel rooms and the effects of location and brand on customer demand. An example of a comment relating to this characteristic is as follows: “An unoccupied room is an unoccupied room. Once the day has passed, you have lost the opportunity to make money on it” (unknown commentator). Travelers’ booking behavior focused on consumers’ search for the best rate and their practice of comparison shopping. As one commentator put it, “The major stand against the 800 pound gorilla is admirable, but the only thing that matters is what the consumer wants” (unknown commentator).

### Theme 2: Current Business Environment

The current business environment included three subcategories related to the economic downturn, the bargaining power of OTAs and Expedia, and other hotel groups’ issues with Expedia. The industry was suffering the effects of the great recession, so it’s not surprising that one commentator indicated the following: “The industry is trying to pull through it. Franchisors and franchisees, as well as management companies and owners are trying to reach compromises to get through a tough recession” (unknown commentator). The OTAs’ bargaining power drew the most comments in this theme, and posters reflected on the shift of bargaining power from hotels to OTAs and Expedia. As one commentator explained, “The industry just discounted away and was open to any distribution method and was willing to sell rooms at any cost. We got Expedia” (from a hotel owner). Other hotel groups’ issues included comments on the relationships of Best Western and Marriott with OTAs and Expedia. The following quote illustrates this point: “I’m curious as to how Marriott’s ‘best rate guaranteed’ by booking on their site has worked out and how does that affect their relationship with the OTA?” (unknown commentator).

### Theme 3: Symbiotic Relationship between Hotels and OTAs

A few posters noted the symbiotic relationship between hotels and OTAs, including comments on close- and long-term interactions between hotels and OTAs. Building healthy relationships had the highest number of comments here (with four), followed by the idea that Expedia should be flexible. The following comment illustrates this perspective well: “We do certainly consider the OTAs our friends. I am not sure if the OTAs do the same. The relationship should be symbiotic and not parasitic” (from a hotelier).

### Theme 4: Expedia’s Business Practices

The six subcategories in Expedia’s business practices theme drew the most comments overall. Conducting business with Expedia had the highest number of comments (thirty-four), followed by functions of OTAs and Expedia, Expedia’s business tactics and commissions, its actual role, and its reputation. Conducting business with Expedia included comments on how Expedia manages the hotels in its database in terms of pricing, customer comments, and frequency of updates on hotel policies and room descriptions. A commentator indicated the following: “We learned long ago if we wish to remain in the top of the sort order, we had to always have inventory and had to participate in promotions” (from a Choice Hotels franchisee). Comments on the OTAs’ functions noted their role as a venue for hotels to advertise their names, fill unoccupied rooms, and



reach a wider customer base, as expressed in the following comment: “OTAs cannot sell rooms without hotels, and hotels look to OTAs as one of many market channels to sell unsold rooms” (unknown commentator). Business tactics of Expedia referred to Expedia’s efforts to sell placements on its website and to negotiate individually with hotels and brands. In relation to selling placements on Expedia’s website, a commentator stated, “Expedia is taking money from your competitors and placing them in front of you” (unknown commentator). Regarding negotiating individually with hotels and brands, a commentator indicated that “Expedia effectively practices [the] divide and rule principle both for competitive hotels as well as for chains and their franchisees” (unknown commentator). Hotels pay Expedia commissions of 20 percent to 30 percent, regarding which one commentator stated, “They are dictating the deals ‘you have to be at this percent off to participate’; ‘this must be an exclusive offer or we will charge you an extra 2-5 percent margin’; ‘we need you to be priced at X rate or lower.’ They have become the elephant in the room and starting to set the price” (unknown commentator). The actual role of Expedia includes comments that reflect the status of Expedia and other OTAs as third-party websites rather than travel agents or wholesalers. As one commentator put it, “They are not travel agents, they are simply marketing-technology companies that are using our money to advertise themselves to our customers” (from a hotel franchisee). Reputation of Expedia referred to how Expedia is perceived in relation to other OTAs and its business practices, which gives the impression it does not act as a partner to the industry.

### *Theme 5: Wake-Up Call for Hoteliers*

Comments from those who thought the feud was a wake-up call for hoteliers comprised two subcategories: evoking awareness among hoteliers and controlling OTAs. Comments related to evoking awareness among hoteliers focused on the influences of the Expedia–Choice Hotels feud in increasing the awareness among hotel industry professionals. As one commentator stated, “It is about time someone said enough is enough” (from a hotelier). Controlling OTAs referred to hotels’ efforts to control their relationships with OTAs. As an example, one commentator indicated that hotels should “control them now, or let them control you tomorrow” (unknown commentator).

### *Theme 6: Results Derived from Choice’s Decision to Break Off Negotiations with Expedia*

Choice’s decision to break off negotiations with Expedia brought comments in four subcategories: loss of business for many Choice Hotels, an adverse effect on Expedia’s business, no effect on Expedia’s business, and a win for all

other brands, which drew the most comments in this theme. Several commenters thought Choice franchisees would lose business during the feud. The following quote illustrates this point: “It hurts Choice hotel owners most at a time when they need the revenue most” (from a hotelier). Comments seeing no adverse effect on Expedia’s business included the following: “Given the star level and ADR of Choice hotels, one can be sure that Choice makes up an even lower percentage of Expedia’s gross hotel revenues” (unknown commentator). On the other hand, those who foresaw an adverse effect on Expedia’s business invoked the possibility of other hotel brands following Choice’s lead. The following quote illustrates this point: “Expedia will start losing revenue if a couple other hotel chains do the same as Choice Hotels International” (unknown commentator). The idea that the feud was a win for all other brands referred to the advantage other hotel brands gained over Choice Hotels due to their being absent from Expedia’s websites during the course of the conflict. As a commentator stated, “The current situation is a dream for other franchises, they will bask in the increased sales as a result of the squabble” (unknown commentator).

### *Theme 7: Experience in Dealing with Guests Who Book through OTAs and Expedia*

This theme involves hotels’ efforts to encourage guests to book directly through “Brand.com” than through the OTAs and Expedia, based on two subcategories: pricing-related issues and service-related issues. Hotels’ pricing-related tactics to convince customers to book directly are reflected in the following comment: “We aggressively ask Expedia guests to call us directly for better rates on their next stay” (from a hotelier). Other comments in this subcategory read, “Guests read the reviews, and often call us directly, at which point we can offer a senior, corporate, or AAA discount” (from a hotelier); “Guest gets 10 percent off, we make 10 percent more. Everyone [is] happy” (from a hotelier); and “I always rate match with Expedia if someone calls in” (from a hotelier). Hotels also can invisibly give Expedia guests poorer service. A commentator indicated the following: “Their customers are using them since they get the lowest rate. So, then the guest comes through and gets the worst room because they paid through OTAs. That is what happens” (from a hotelier).

### *Theme 8: Recommendations for Hotels*

Commenters offered the following six recommendations for hotels: (1) look for alternative partners, (2) renegotiate, (3) adopt the airline model, (4) control your own business, (5) stand up together, and (6) develop skills to survive without unfavorable OTA contracts. The alternative partnership business model suggested by commentators included using

search engines (Google, Bing, Yahoo), major travel agencies (American Express, AAA, Carlson), other OTAs (Travelocity, Orbitz, Priceline), travel wholesalers (GTA), comparison engines (Travel Zoo, Booking Buddy, Hotel Cycle), and metasearch engines (Kayak.com, Hotelbeds). Another recommendation was to wait for a better economic situation to renegotiate with Expedia. One commentator stated, “The appropriate thing would be for Choice and Expedia to agree an amicable short-term agreement while they sort out their differences” (unknown commentator). Commentators suggested that hotels adopt the airline model and control their business related to taking control of their rates, inventory, and yield. A commentator stated, “This is a fight for control of your own inventory. . . . It isn’t a passive match we are watching between two opposing teams” (unknown commentator). The most popular recommendation, with thirty-eight comments, was that hotels should stand up together to fight for a common cause, as illustrated in the following quote: “I applaud Choice and other hoteliers to standing up to the ‘bully’ and deciding against ‘bad business’ practices” (unknown commentator). The sixth and final recommendation was related to utilizing and investing in technology that helps hotels become less reliant on OTAs. As an example, one commentator stated, “If [hotels] want to survive, they need to know how to invest in Travel Tech and e-marketing and how to optimize their direct channel” (unknown commentator).

## Discussion

Returning to the question of whether this feud indicates agency issues, we analyzed the comments for two types of agency problems both related to information asymmetry: hidden information and hidden action (Mahoney 2005; Combs 2008). Hidden information problems occur when the agent uses information that renders the principal unable to check whether the agent made a right decision on behalf of the principal (Mahoney 2005; Combs 2008). Hidden action is related to the failure to make a good effort on behalf of the principal and instead taking actions that are self-serving (Holmstrom 1979; Arrow 1985).

Theme 4 (Expedia’s business practices) portrayed self-interested behavior, as illustrated in these comments: “Expedia is taking money from your competitors and placing them in front of you,” while “OTAs cannot sell rooms without hotels.” Indeed, it was apparent from public statements that the feud originated from Expedia’s discrete control over the online sort order of hotel inventories. Statements such as “they [Expedia] have become the elephant in the room and starting to set the price” (unknown commentator) and “if we wish to remain in the top of the sort order, we had to always have inventory and had to participate in promotions” (from a Choice Hotels franchisee) exemplify the core of the conflict.

We must note that Expedia is clear that the sort order is determined by such factors as long-term rate competitiveness, participation in Expedia packages, peak season inventory levels, and distance from a user’s desired location, as well as negative user reviews. That said, participating hotels cannot have full access to the information that drives the sorting process, which is not fully transparent (Turner 2010). As we said above, obtaining a high placement on any intermediary’s search results page is essential (Pereira 2001; Turner 2010). The online consumers’ behavior is a source of empowerment for Expedia.

Some comments seem to argue that Expedia’s actual role is not that of a traditional agent at all, as in the franchisee’s observation: “They [Expedia] are not travel agents, they are simply marketing-technology companies that are using our [hotels’] money to advertise themselves to our customers.” As such, while Expedia needs to rely on hotels for its inventory, it does not seem to work in the best interests of hotels, but appears to work for itself. This is the point where a principal–agent relationship collapses and a new term is needed to reflect the nature of the OTA. While their core function of selling rooms on behalf of hotels reflects an agency relationship, their many other activities go far beyond that designation.

Looking again at the agency issue, two themes that emerged from the content analysis, theme 1 (“characteristics of the hotel industry”) and theme 2 (“current business environment”), explained why agency problems occurred, or why the OTAs are not agents in the traditional sense. In short, Choice Hotels had considerably less bargaining power than Expedia, a point that came out in several comments. Choice Hotels did not take preemptive action in the face of the existing business environment, its distribution channel selection was not methodical, and like the rest of the industry it was struggling with the economic downturn. Choice is not alone in needing to update its legacy systems, as noted by this observer: “This industry missed the opportunity years ago” (unknown commentator). And this one also saw the need for change: “This move on Choice’s part is about a few people at Choice being unable to play well with others, in my opinion, and it should have never gotten this far” (from a Choice Hotels franchisee).

Another source of Expedia’s superior bargaining power, as noted in comments in themes 1 and 2, was that Choice Hotels had a high dependency on (or high stakes in) distribution channels provided by Expedia and other OTAs. Particularly during the Expedia–Choice Hotels conflict, the economic downturn escalated the dependency of hotels on strong distribution channels and gave greater bargaining power to OTAs, simply because the supply available from hotels outweighed the demand from customers in any distribution channel. Under these circumstances, Choice Hotels’ withdrawal from Expedia represented no threat to Expedia’s business model since it had adequate supply from other

sources. On the contrary, the perishable nature of hotel products and the fragmented nature of the hotel industry favored Expedia in this bargaining situation.

Several comments questioned the existence of reciprocity between Choice Hotels and Expedia (theme 3, symbiotic relationship, and theme 5, wake-up call). A recent study on the travel agency–supplier relationship empirically identified the positive influence of perceived reciprocity on a travel agent’s commitment to its supplier (Andreu et al. 2010). Without that balanced exchange of value, the agency relationship can go awry. Supporting this perception, the findings revealed that OTAs are less eager to establish long-term relationships than hotels are. The failure of reciprocity shows in the following comments: “We [hotels] do certainly consider the OTAs our friends. I am not sure if the OTAs do the same” (from a hotelier); “Expedia should be competing with other OTAs, not demanding that hoteliers give them the competitive edge of their competitors” (unknown commentator); and “It is about time someone said enough is enough” (from a hotelier).

Themes 5 (wake-up call), 7 (guest relationships), and 8 (recommendations) illustrate what the hotel industry has learned from the emergence of OTAs and project a suggestion for hotels to rebalance their bargaining power with OTAs. The hotel industry has become aware of the importance of communicating directly with customers with regard to both pricing-related issues (e.g., the willingness of hotels to match the prices available from different OTAs) and service-related issues (e.g., hotels gain a better understanding of their customers when they use a direct channel without intermediaries). Although the idea of collective action of hotels “against” OTAs’ business strategy (e.g., not providing hotel inventories to OTAs) seems appealing, such collective actions would be difficult to achieve primarily because hotels rely so heavily on third-party distributors. Thus, hotels that decided not to join a collective action could take advantage of their counterparts’ absence from OTAs’ websites.

## Conclusions and Managerial Implications

Our goal with this study was to analyze the status of the agency relationship between the hotel industry and OTAs, as indicated by online comments on the October 2009 Expedia–Choice Hotels feud. Our content analysis of these comments identified eight themes in three overall categories: the background to the feud (i.e., characteristics of the hotel industry, current business environment, Expedia’s business practices), the perspectives of hospitality industry professionals on the feud (i.e., wake-up call for hoteliers, Choice Hotels’ decision), and expectations concerning the nature of the relationship between hotels and OTAs (i.e., a symbiotic relationship between hotels and OTAs, experience of dealing with guests who book through OTAs and Expedia, and recommendations for hotels).

The comments strongly indicate that Choice Hotels faces agency problems with Expedia and holds less bargaining power than Expedia. Clearly, the economic downturn and overwhelming volume of available rooms increased Choice Hotels’ dependence on third-party distributors, giving Choice relatively less bargaining power.

This finding raised the question of the extent to which the Choice Hotels experience reflects that of the industry as a whole. Other studies indicate that this may not be the case. Marriott International’s brands, for instance, seem to face less acute agency problems due to their maintenance of control over hotel inventory supplied to OTAs. Coleman (2010, 52) described Marriott’s exceptional practice as follows: “They [Marriott] appointed some agents who actually sold Marriott and paid them 10 percent while keeping all the other agents at a lower commission. Unfortunately, the hotel industry did not follow.”

A strong theme within our findings is that the commentators desire a more balanced relationship between hotels and OTAs. This appeared to be the source of the recommendation that hotels should enhance their bargaining power by looking for alternative partners, standing united, and developing skills to remain competitive without unfavorable OTA contracts.

The fact that Choice Hotels held out for just a month before signing a new contract with Expedia (presumably on Expedia’s terms) indicates the uneven bargaining power between the two, particularly during the depths of the great recession. The managerial implications we present in the following paragraphs take a longer view and suggest ways that the hotel industry can reduce overdependency on OTAs while still maintaining a relationship with this important distribution channel.

Although hotels cannot operate in restraint of trade, they can share information about their inventory and OTA business strategies. We know that this recommendation runs counter to the industry’s strongly competitive stance, but sharing information will make OTAs’ mysterious data process more transparent. We see information transparency as benefiting the entire industry, as demonstrated, for instance, by the aggregated rate and sales information compiled for hotel markets by STR. We are not suggesting that hotels share sensitive financial data, but they can swap data on online channels that offer similar types of services. If a specific hotel receives unfavorable or unfair “treatment” from an OTA, the manager can, and should, let others know. For instance, hoteliers in the same city or region can be connected through professional networks such as LinkedIn.com and form a revenue management professionals group to discuss issues that are not adequately addressed by OTAs or to share information about OTAs’ practices. Alternatively, independent hotels might form additional consortia or referral associations to foster economies of scale (as occurs with the Leading Hotels of the World and Best Western). Through

such a consortium, they might establish an inventory warehouse for affiliated hotels to release and share their inventory information. In doing so, affiliated hotels can maintain control over their inventory by renting out access to OTAs. Sharing information about how affiliated hotels strike deals with OTAs would also help establish collective bargaining power.

Second, the hotel industry might consider adopting the airline model of direct connections with tailored services. Formerly, most airlines listed their inventory on GDSs, and OTAs were paid by GDSs to sell seats. American Airlines, for one, then bypassed the cost of the GDS by redirecting inventory directly to the OTAs and pulling its inventory from SABRE (Quinby 2011). The apparent idea was to balance the power of the GDSs and OTAs as well as encourage bookings on the airlines' own systems. To improve bookings on their own systems, airlines are attempting to offer tailored products on their own systems for baggage, upgrades, and other ancillary services that are not available from OTA websites. Although the hotel industry is by no means as consolidated as the airline industry, hotels can follow the approach of offering differentiated services for customers who book through hotel websites as compared to those coming through OTAs' websites. Regardless of whether this approach is the best, the idea is for principals to develop the rules of the game or reward performance (Jensen 1983; Gomez-Mejia and Balkin 1992). Some hotels already are offering packages to disguise their price and encourage bookings on their own sites.

Regardless of their agency-related strategy, hotels need to advance their technology use and continue to improve their websites. Toh, Raven, and DeKay (2011) suggest several approaches to website improvement, including optimizing the website, creating offers based on customer data mining, and enriching the hotel's website with information not available through other channels. Optimizing the website for search engines is also recommended by Paraskevas et al. (2011). Most critically, the hotel's booking engine should be available as a mask on every page of the hotel's website or on Brand.com. In addition to establishing easy-to-use and effective web design, hoteliers should include other services (such as newspaper delivery, airport pickup, breakfast, use of the business lounge, spa or restaurant deals or coupons) as options for customers to choose when they book. Providing reasonable guarantee and cancellation policies on a website where a customer can get flexible terms with privilege points or airline points can influence the customer's decision to use the hotel website instead of OTA websites.

Fourth, hotels should make more effective use of their revenue management (RM) systems to allow effective inventory and pricing management. While hotels have access to many RM software programs, the key is to have management expertise to make the best use of the system's recommendations. For effective RM, strategic pricing and

inventory levels should be continuously communicated to third-party distribution channels. As distribution management is part of RM today, hotels should carefully examine OTAs and other online channels available to them (such as search engines and hotel comparison websites) to identify the channels that yield the most room sales at the best rates.

Fifth, hotels need not only to select their distribution channels carefully but also to extend their networks to encompass more OTA partners, thereby avoiding overreliance on one or just a few OTAs. For instance, regional OTAs including Lastminute.com and Zuji.com can help hotels attract customers because they enable hotels to develop and provide products based on a better understating of demand from customers in the region. Via the consortium previously suggested, hotels can organize an OTA that specifically serves the associated hotels.

A sixth recommendation is that acting in the best interests of others will encourage a positive form of reciprocity (Brownell 2000). To achieve such a positive form of reciprocity, both parties must establish trust, which precedes reciprocity (Andreu et al. 2010). Trust reflects a reliance on a partner and can be strengthened via structural bonds (Gounaris 2005). As information technology (IT) implementation requires investment in technology and the integration of e-business processes, it is more likely to create structural bonds between two parties. Hotels and OTAs can therefore establish greater trust by intensifying their adoption of e-communications within their IT functions (Andreu et al. 2010).

## Limitations and Recommendations for Future Research

The chief limitation of this study is its focus on the analysis of a single case involving one hotel franchise system and one OTA at a particular time. The situation may well have changed substantially in the intervening time. While the case study provided useful insights into the nature of the hotel-OTA relationship, findings would have been more generalizable if more similar or related cases could have been analyzed (e.g., the Expedia-InterContinental Hotels rift in 2004 and the American Airlines-Orbitz-Expedia feud in 2010). Furthermore, although qualitative analysis (in this case, a content analysis) was a suitable vehicle for meeting our study objectives, quantitative analysis can supplement our findings.

A further limitation is that the data collected from online sources might have been biased and reflected one party's perspective more than that of the other party. In most cases, it was not possible to identify whether commentators represented the hotels or OTAs due to their anonymity and the lack of information available about the authors. Given that we found more comments favorable to the hotel chain than to the OTA, it is likely that most of the comments were

made by people associated with the hotel industry. Another factor supporting this conclusion is that more employees are affiliated with hotels, and those with less bargaining power tend to make complaints (Lersch 1998). Although we tried to balance the analysis by utilizing as diverse a range of online sources as possible, the existence of bias in UGCs examined cannot be discounted.

Future research could employ in-depth interviews or surveys to examine how the hotel industry and OTAs regard each other as business partners—an analysis that might resolve questions about agency. This approach would provide more insightful information about current issues between the two parties. Future research might also investigate hotel RM practices and customers' perceptions of such practices. Because price is the most important factor customers take into account in purchasing travel packages both online and offline (Chiam, Soutar, and Yeo 2009), one issue of interest is whether they tolerate rate restrictions implemented by hotels that adopt RM practices.

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