


“Digital distribution of hospitality services in the context of the COVID-19 pandemic”

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DIGITAL DISTRIBUTION OF HOSPITALITY SERVICES IN THE CONTEXT OF THE COVID-19 PANDEMIC

Abstract

The rapid implementation of digital technologies in all spheres of society resulted from the evolution of consumer needs and IT breakthroughs, the acceleration of which was caused by the COVID-19 pandemic. Lockdowns restricted physical contacts in customer service, highlighting the urgent need to digitize the business. The difficulties in predicting socio-economic conditions of the pandemic have led to new opportunities and mechanisms for the distribution of services and the formation of economic stress resilience of economic entities. The study aims to reveal the essence of the digital distribution of hospitality services in the conditions of uncertainty caused by COVID-19. The study of services digital distribution gives awareness of the possibilities of their implementation in the activities of hospitality entities, which were considered in the context of business security and development drivers during COVID-19. To achieve the study's goal, a comprehensive approach to the essence of digital technologies, including those specific to hospitality entities, was used. The results of the analysis allowed stating the economic feasibility of direct sales channels. In addition, prerequisites for the collaboration of hospitality entities with digital channels were determined, recommended markers of optimal relations with distributors using digital innovations in business were formed. Further, business strategy development took into account the peculiarities of mixing the niches of competition of business entities in digital format and traditional competition.

Keywords distribution, distribution channels, marketplaces,
hospitality entity, COVID-19

JEL Classification M31, L83, O33

INTRODUCTION

Digital technological innovations have radically changed the economic consciousness of the promotion and distribution of services, opening up global resources to scale the sales activities of hospitality entities. Competitive advantages in digitalization have appeared, consisting of flexible and adaptive management skills, considering modern technical and technological trends, creating proposals, and motivating collaboration in sales and promotion of services. It means that the experience and skills of implementing technical innovations that were once complementary are now essential. Analytical reports from many market players support the hypothesis that today's distribution is integral to business management. The argument in favor of digital distribution was the immersion of consumers in the Internet environment, which led to a change in customer behavior: the advantage shifted in favor of online action to find hospitality, booking, and payment services. Therefore, in the falling demand for hospitality services, the study of distribution as a sales driver is an important issue for business survival and its adaptation to the pandemic crisis. In these circumstances, the cost of services of distribution companies is production costs. That is why they can be called investments in the future of the business, which requires constant updating of research.

1. LITERATURE REVIEW

The modern economy is characterized by ever-increasing competition in most industries, which makes relevant the creative approach to business reorientation (Nesen et al., 2017, p. 83). The topic of digital distribution of hotel and restaurant business services covers research of digital markets, digital technologies, and distribution of services. "A growing number of studies highlights the power of digital platforms to re-organize markets and thereby create new forms of dependence" (Balsiger et al., 2021). Digital markets have their own characteristics and "include all kinds of trading using the Internet for product search, purchasing, and payment" (Overby & Audestad, 2021b) and have long been a zone of "blue ocean" strategies (Carton, 2017; Mesut, 2021). The pandemic lockdown linked them to the strategic interests of gaining competitive advantage and the "red ocean" (Rezeki et al., 2019; Norikun, 2018), provoking an innovative breakthrough because "without the innovations of the modern digital market would not exist today" (Allen-Robertson, 2013, p. 187). Consideration of digitalization is relevant because "modern business entities need to do business in the paradigm of open innovation because due to the speed of technological progress, it becomes increasingly difficult to develop the necessary solutions with the use of internal resources" (Poznanska et al., 2020, p. 28).

Theoretical and scientific-methodical activity foundations in the non-traditional (digital) market are fully considered in scientific papers. "The topic of digitalized markets will undoubtedly continue to be among the most important ones for years to come, not least due to new issues that arise in this ongoing transformation" (Hagberg & Kjellberg, 2020). The concepts of digital markets (Kim & Mauborgne, 2005, p. 82) outline their principles and features: the combination of differentiation and low cost in the strategic behavior of economic agents.

Global digitalization trends contribute to significant changes in all spheres of life (Allen-Robertson, 2013; Overby & Audestad, 2021a, 2021b; Ma, 2022). Even "high-technology firms' business models change when they transfer from physical distribution channels to digital distribution platforms" (Baber et al., 2019, p. 5004) and contribute to a sig-

nificant increase in competition (Cennamo, 2019). Accordingly, attention is focused on the principles of functioning of digital markets (Docters et al., 2011). In addition, Karaoulanis (2015) presented the projections of digital market trends on digital marketing and distribution and formed basic paradigms. The considered sources can be used to identify opportunities to build strategic and tactical sessions for the implementation of digital technologies in business, making it possible to be in demand and convenient for customers in modeling the decision to purchase certain hospitality services.

It is indicated that "the prospects for Internet use and consumption associated with the hotel sector will increase even more in the coming years" (Cruz, 2003, p. 105). Currently, "digitalization brings the challenge to hotels' work process" (Buer, 2019, p. 6), and "the hotel industry strategically responds to digital platform power" (Balsiger et al., 2021). In the post-pandemic period, digitalization will become one of the main strategic concepts in the tourism and hotel business (Melnychenko et al., 2020; Mazaraki et al., 2019).

Digital technologies in the field of hospitality are considered as "technologies of communication, management, and control of the current hotel processes" (Buer, 2019). They may "bring benefits through multihoming, launching new products, extending revenue models, and improving information flow between actors in the value network" (Baber et al., 2019, p. 5005) with the help of tools "supported by innovative digital practices like internet banking, mobile banking, e-wallets, debit and credit cards" (Passah & Kumar, 2019). Significant advantages of digitalization in the field of hospitality are considered. "Digitalization will be the technology of communication and control as part of the daily process in the hotel and will drive (increase) or slow down the value of a hotel brand and its hotel market" (Buer, 2019, p. 6). "There are numerous multiplier effects of digitalization when all production chains are included in a single information space" (Tokarenko et al., 2020, p. 130).

Digital technologies are radically changing the functioning of both individual hotel market players and the hotel business itself. Such changes are considered at the level of individual countries (Eneyo, 2017) and regions (Khmiadashvili, 2019).

Discussions on distribution, in particular the evolution and evaluation of the effectiveness of direct and indirect distribution channels, are addressed by Choi and Kimes (2002), Carroll and Siguaw (2003), and O'Connor and Frew (2002). Currently, studies on the hospitality services distribution focus on various methods of optimal combination of hotel rooms' distribution channels. In particular, Dolasinski (2016) uses DEA Analysis with a Balanced Scorecard Approach. Temjanovski and Marjanova (2016) apply new GPS and wireless technologies. Falk and Anderson (2020) use Key Hotel Distribution Channels. Ross (2021) compared and evaluated Direct and Indirect Distribution Channels.

However, a few studies analyzed management of hospitality services distribution in the digital space, particularly in conditions of uncertainty and limited physical contact, formed under the influence of the coronavirus pandemic, which forced a digital breakthrough in all business processes and the economic environment. Thus, digital distribution, its content and features of implementation in the operational activities of the hotel and restaurant business in an escalating pandemic quarantine need scientific reasoning.

2. AIMS

The study aims to reveal the essence of the digital distribution of hospitality services in the uncertainty associated with COVID-19. To achieve this goal, the following tasks were identified:

- 1) to operationalize the definition of "digital distribution";
- 2) to identify the main types of online distribution channels for hospitality services;
- 3) to explore the parametric capabilities of digital technologies;
- 4) to form recommendations on the application of optimal digital capabilities in the system of distribution of services of hotel and restaurant business entities.

3. METHODS

A descriptive-analytical approach was used to deepen the understanding and study the distribution of services and digital technologies. The paper is based on the research approach aimed at evaluating the critical components of the hospitality distribution system. The comparative analysis made it possible to compare the capabilities of BRAND.com and OTA in the distribution of hospitality services. Furthermore, to make recommendations on the fulfilling of digital instruments, the services of the hospitality entity were detailed according to the principle of expediency of distribution channels.

4. RESULT AND DISCUSSION

Pandemic quarantine-driven digitalization has implemented new standards in the social and economic space, creating new requirements for the competent management of economic entities. Latently initiated in the 1960s, transforming information capabilities is now becoming a must in communications for all types of marketing relationships: B2C, B2B, B2G, G2D, G2C, creating digital interoperability technologies. However, in Ukraine, the spread of digitalization is still taking place at a slow pace due to the low digital consciousness of people and a significant level of cybercrime. Therefore, the implantation of digital competencies in the social consciousness should be carried out by gradually understanding the importance of digital technologies for life in modern civilization and gaining cognitive trust in them.

4.1. Semantic connection of digitalization and distribution of hospitality services

Understanding and taking advantage of digital technologies are absorbed by testing digital functions of mobile and computer gadgets, their correct interpretation, which requires some operationalization of the terminology, including "digitization", "digital technology" and "digital platforms". In general, according to Parker et al. (2016), Härting et al. (2017), Sokolova (2018), Buer (2019), Khlebynska (2021), and Zub and Kalach (2021), comparative studies of digitalization inter-

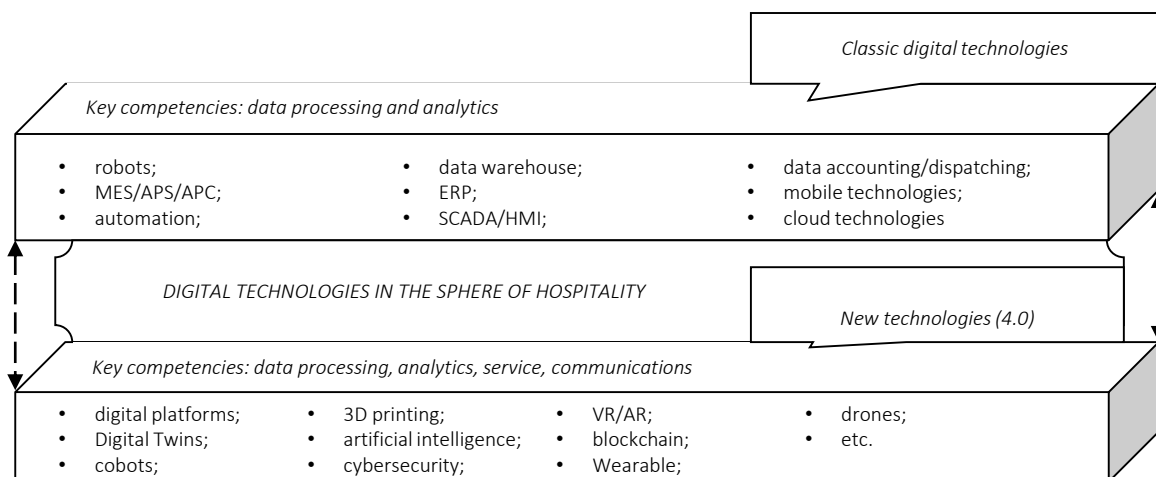


Figure 1. Key digital technologies in the hospitality industry

pret it as saturation of socio-economic space with digital technologies to improve the business model of communication interaction in the creation of cash flows and values. As for digital technologies, they include ways to meet the needs of economic entities through classical and innovative technical means (Figure 1).

Thus, digital technologies, including digital platforms (Internet of Things), robotics and cybersystems, artificial intelligence, cloud and fog computing, unmanned and mobile technologies, identification technologies, blockchain, etc., can facilitate business processes of hospitality entities, including booking, registration and guest counting (Uifuture, 2021), stimulating the development of value chain activities (Martínez-Caro et al., 2020).

In turn, digital platforms are a space for collaboration of participants in the commercial process (International Trade Centre, 2018; Parker et al., 2016), which unites producers and consumers of hospitality services, improves communication and booking services facilitating settlement transactions contributing to value creation for all participants. That is, digital platforms are a platform for business – distribution of hospitality services. Distribution is an essential component of business management. Aligning Choi and Kimes (2002), O'Connor and Frew (2002), Carroll and Siguaw (2003), Acris (2015), and Eneyo (2017), this paper interprets distribution as *a set of ways and tools which form commercial communications between*

the service provider and the consumer through an intermediary, creating convenient ways to choose an offer, make a reservation, and pay for a hospitality product. For the hospitality entity that offers services, distribution is possible on digital platforms – marketplaces. Therefore, it is advisable to consider digital distribution in hospitality.

The contamination of the definitions of “digitalization” and “distribution” makes it possible to define digital distribution as *a form of collaboration of hospitality entities with marketplaces in the digital space, using digital technologies to improve the business model of communication in creating cash flows and values.* The efficiency of digital distribution of services depends on the right choice of a distributor who has a high reputation capital and conversion of marketplaces. Effectometry of digital distribution involves the evaluation of distribution channels, which requires constant monitoring, quality feedback, as well as iterative adjustments to business strategy and tactics.

4.2. Application of digital distribution channels for hospitality services

Analytical reviews of Choi and Kimes (2002), O'Connor and Frew (2002), Carroll and Siguaw (2003), and Falk and Anderson (2020) make it possible to state that digital distribution of hospitality services is an effective instrument for revenue management. In addition, it is vital to optimize business processes to implement hotel and restau-

Source: Melnychenko and Esipova (2010), Mykhaylichenko (2012), Danylenko (2015), Dolasinski (2016), Eneyo (2017), Ross (2021).

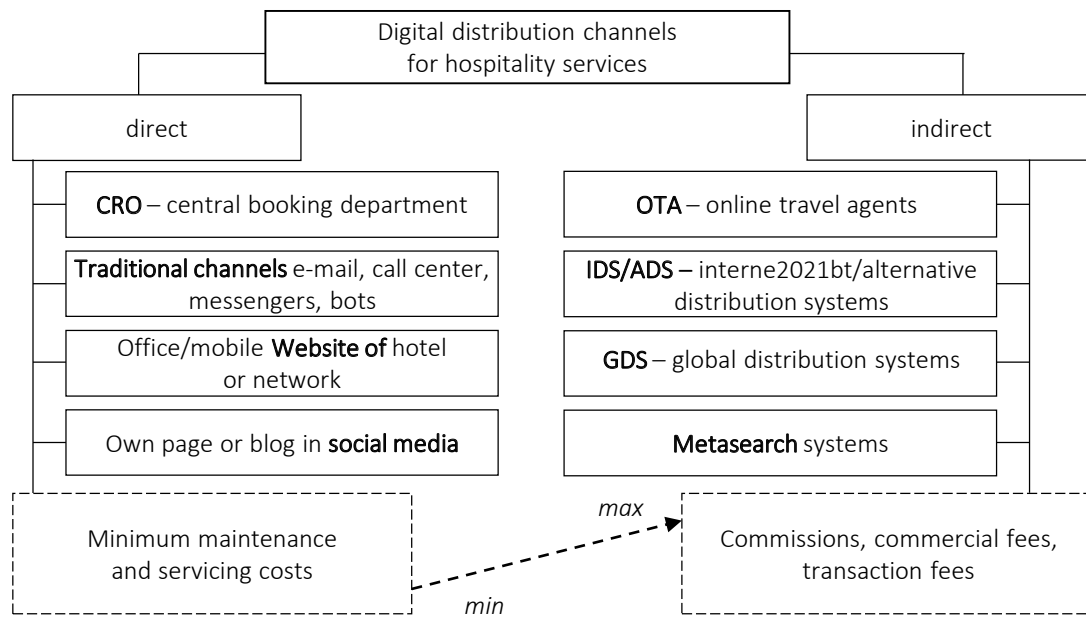


Figure 2. Types of online distribution channels for hospitality services

rant services through online channels, which can be divided into direct and indirect ones (Figure 2).

From an economic point of view, it is evident that hotels are more profitable if they work through the channels of the first group. However, the variety of consumer preferences and behavioral characteristics force companies to build an optimal work model with all these channels. The larger and more diverse the list of distribution channels the hotel uses, the greater the flow of direct traffic it receives (Guillot, 2021).

The organization of sales through the hotel’s website is aimed at encouraging guests, corporate customers, and booking agencies directly at the hotel (without intermediaries). The fact is that with the advent of a large number of Internet agencies, the hotel’s website has to be rated for the right to provide its resources for booking to the consumer, so it is vital to take a top position in the search engine when searching for its brand. The latter plays a crucial role in the competition among players in the digital market for services distribution. There is a paradoxical situation: the hotel pays significant commissions to its intermediaries, which they pay for advertising on Google to stay ahead of its site in search results. In this way, the distributor lures the hotel’s direct customer to its intermediary site.

Practice shows that the promotion and management of a direct channel (brand book – BRAND.com) give significant advantages over one of the strongest and most common distribution channels – OTA (Table 1).

Table 1. The comparison of BRAND.com and OTA capabilities in hospitality services distribution

Source: Falk and Anderson (2020), Fedorychak (n.d.), Amadeus Hospitality (n.d.).

Parameters	BRAND.com	OTA
Establishing relationships with consumers when booking	Remaining information about the guest: personal data, geographical location, which gadget was used for booking, individual wishes	No personal information, only coded cipher, for example, aschro286419@guest.booking.com
Support of communication with consumers	It is possible to subscribe to targeted newsletters, package offers, or additional services	Active use of remarketing – reminding users who have already been on the OTA website about the need to complete the order
Cancellation	Less than 10%	About 40%
Hotel costs for booking services	Very low, even when combined with paid AdWords advertising and Facebook	Loss of part of income due to payment of commission from 10% to 25% (30%)

In addition, according to Amadeus Hospitality (n.d.), the share of hotel revenues from booking through a brand book is 22-25%, which shows

the benefits of a direct distribution channel. As for meta-search engines, consumers often choose the hotel (restaurant) whose site will be in the top search engine rankings. Therefore, during the implementation of marketing activities, a hotel or a restaurant should take into account the factors by which the Google search engine ranks the site in the TOP 3-10:

- quality of services;
- competently composed SEO texts;
- correlational behavioral reactions of users on the website (taking into account behavioral factors).

Suppose the user did not find the necessary information on the website and could not order through an inconvenient interface. In that case, Google automatically redirects the site to the n-th page of the search results. In addition, it is necessary to consider and process the behavioral factors of Google’s site ranking, namely (Fedorychak, n.d.): bounce rate; return to re-search the site; time spent on the website; depth of viewing site pages; depth of scrolling of site pages; traffic sources and regular audience; relevant and authoritative links to the site; social evidence, i.e., the activity with which the audience responds to the content of the website in social networks (likes and sharing of pages); security and privacy.

Today, social networks have a significant influence. The hospitality subjects have their own specific features in positioning, where priorities in consumer decisions are determined by their own experience (in particular, hotel chains), followers’ advice, feedback on services more. Therefore, careful maintenance and adjustment of the content of the webpage, the blog of a hotel and a restaurant is an important communication channel in maintaining sustainable relationships and managing them.

Indirect channels are also crucial despite the apparent loss of economic benefits from operational activities due to the need to pay the intermediary margin covered by the end-user: the intermediary earns and the hotel loses 10-30% of the price on this transaction. The benefit of indirect distribution is in expanding the reach of the target Internet audience. Moreover, marketplaces not only offer booking and payment for the ordered service but

also provide certain advantages: increase greater visibility on the Internet; generate many analytical instruments and information to target the target audience; provide the ability to manage guest feedback, etc. Therefore, the strategy of mutually efficient distribution should focus on marketplaces (indirect channels) – a type of e-commerce website. Here filtered information about hotel and restaurant services by specific geolocation, control dates, and potential customer requirements allow booking and paying (guarantee payment) for the selected order. Many distribution networks are operating on marketplaces: GDS (Global Distribution System) and IDS/OTA (Internet Distribution Systems/Online Travel Agencies).

Thus, GDS (Global Distribution Systems) are represented by the following platforms for distributing services, including hotels: Amadeus, Galileo, Saber, Worldspan, Abacus, and KIU. In turn, IDS/OTA (so-called ADS – Alternative Distribution Systems) – are systems that allow hotel customers to book rooms directly, without intermediaries. The global leaders of IDS/OTA are Priceline, Expedia (for corporate guests), Hostelworld (for more economical accommodation options), Booking.com, Airbnb, and more. The ranking of these distributors is shown in Table 2.

Table 2. Ranking positions of hospitality distribution platforms

Source: Brand Finance (n.d.).

Ranking position		Distribution platform	Volume of operating activities, million USD		Distributor strength index
2021	2020		2021	2020	
1	2	booking.com	8271	10196	AA+ (extremely strong)
2	3	ctrip.com	3 496	5670	AA (very strong)
3	1	Airbnb	3 428	10498	A+ (reinforced)
6	6	Expedia.com	2 584	3451	AA+ (extremely strong)

The dynamics of indicators of distributors’ operational activities are shown in Figure 3.

According to the ratings, the distribution platforms based on the strength index are very strong and extremely strong, which outlines the positive prospects for cooperation with hospitality entities to implement services. In addition, they demon-

Source: Brand Finance (n.d.).

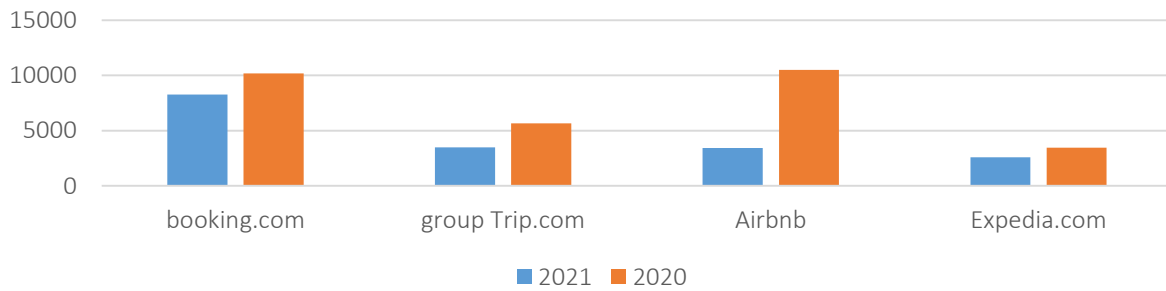


Figure 3. Dynamics of operational activity indicators of brand distributors

strate experience in the security of operations and care for brand reputation.

The relationship of hospitality entities with distributors is modeled in Figure 4.

It should be noted that according to Hotelminder (n.d.), one of the world’s leading systems for distribution channels management, hotels connected to more than five channels receive 50% more orders than those who work with one or two marketplaces. The fulfillment of these digital instruments also affects the effectiveness of the distribution system, in which the hotel and restaurant business must be a profitable partner.

4.3. Digital distribution: joining the “blue ocean”

The basis for building digital distribution relationships is the abstraction from fierce competition and the search for new business models in digi-

tal markets and marketplaces (distribution platforms). The hospitality entity’s entry into the digital distribution platform (the “blue ocean”) makes a significant marketing breakthrough and eliminates fierce competition.

The installation of behavioral attributes in the “blue ocean” niche is a fundamental strategic goal for the modern hospitality industry precisely because it aims to find new ways to communicate with consumers and stakeholders. However, the main principle is the symbiosis of two business strategies that form the “red” and “blue oceans.” Within the “red” strategy, the competition is conducted through direct sales channels and by branding methods in the field of the traditional “price-quality” ratio. On the other hand, hospitality entities are winning at the level of “blue” strategies thanks to the renewal of the paradigm of relationship marketing – digital technologies and marketplaces (indirect distribution channels).

Source: Own development.

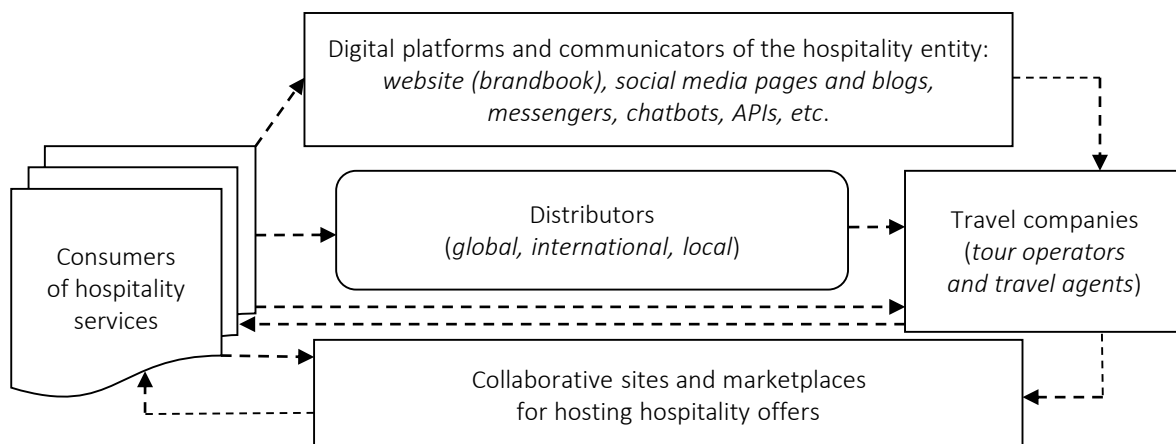


Figure 4. Fulfillment of digital technologies in the distribution system of hospitality services

An important marker of the distribution platform as a zone of the “blue ocean” is the use of resources of its users (hospitality entities) instead of its own resources. The distributor uses the network value model instead of the linear one. For example, unlike an individual hotel, the marketplace does not use its room stock to create value. In addition, each additional user of the marketplace creates benefits for other participants (a priori “competitors”), which ultimately becomes a resource for self-development, i.e., the so-called network effect (Uifuture, 2021).

Integration into the “blue ocean” of digital distribution involves the transition from a linear to a networked value model of hospitality. It shifts the focus of internal business processes on communication between platform users, making it possible to study competitors’ value strategies and apply benchmarking in strategic sessions. At the same time, the transition of maximizing value only for consumers of hospitality services to the general value of the entire digital platform of the distributor is carried out (Uifuture, 2021).

The contamination of strategic zones of the “red” and “blue” strategies is the best prospect in today’s dynamic environment. In Ukraine, it is determined by uncertainty of the timeframe of macroeconomic

threats (escalation of hostilities in the east, pandemic quarantine, low level of tourism infrastructure, etc.) and venture capital digital technologies. Therefore, studying the world experience of business digitalization and current trends, it is possible to predict the significant effectiveness of collaboration of hospitality entities with digital distribution platforms. It has the digital twin effect – the functioning in two economic formats: direct (“red ocean” strategy) and indirect sales (“blue ocean” strategy).

The study confirms that digitalization in the collinearity of globalization and pandemic quarantine crisis ensures the development of the economic activity of entities. It forms customer focusing by creating databases of customer desires and satisfaction levels (Alqudah, 2021); promotes technical innovation, in particular through digital calculations (Passah & Kumar, 2019); instrumentally supports the sales (Melnychenko & Esipova, 2010; Danylenko, 2015). Accordingly, digital distribution is a form of collaboration of hospitality entities with marketplaces using digital technologies to improve the business model of communication interaction in creating cash flows and values. It is an effective instrument for revenue management and business process optimization for the sales of hospitality services through online channels.

CONCLUSION

Digital distribution as a form of collaboration of hospitality entities with marketplaces in the digital space is used to improve the business model of communication interaction in forming cash flows and values. Due to the influence of COVID-19 and the spread of remote communication formats, digital distribution is currently developing at a dynamic pace and is modified in new formats.

The analysis of hospitality distribution channels revealed the indifference of consumers’ choices, i.e., the use of both direct and online portals (indirect) communication channels by hospitality entities. Therefore, the study of trends in business digitalization and technological innovation is an essential factor in achieving crisis resilience of economic activity to shock external influences. Furthermore, the comparison of parametric capabilities of the digital platforms BRAND.com and OTA made it possible to identify their strengths and weaknesses in the context of digital distribution of services and to conclude the synergy of digital communication business models to maximize sales of hospitality services.

The strategy of coordination of digital distribution of hospitality entities with the optimal digital capabilities of marketplaces, search, and collaboration of websites is a way to integrate into the “blue ocean,” which makes it possible to achieve a communication breakthrough in the context of consumer demand.

Thus, the prerequisite for the successful promotion of hospitality services is the digitalization of communication channels. It can minimize the distancing of services, offering consumers new forms and

personal loyalty programs, innovative package offers, RevPar optimization strategy, management of revenues, and hotel rooms occupancy rates. Therefore, future research on digital distribution should focus on identifying effective practices in the formation of distribution systems as a top factor in meeting the economic interests of stakeholders.

AUTHOR CONTRIBUTIONS

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