Rate parity in changing online distribution landscape

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The online distribution of hotel rooms has been in turmoil for some years now. Especially in the focus has been the hotel rate parity and the meta search of hotel rooms. In 2011, Google presented the hoteliers with Google Hotel Finder that at its best can present great threat and opportunity for the online distribution of hotel rooms. Therefore, this research tries to find out how the rate parity has been affected by the meta search of hotel rooms. The purpose and objective of this research is in establishing whether rate parity is really becoming obsolete and create an insightful model for the professionals to use.

First the reader is given short introduction to the hotel revenue management and the online distribution of hotel rooms. From there on the actual conceptual framework for the research is built on the key concepts – rate parity, meta search of hotel rooms and Google Hotel Finder.

The research was done by semi-structured expert interviews with revenue management professionals working either in hotel group level or in education/consultancy. The chosen approach to research was inductive, since the objective of this research is to create a new model for the industry professionals to use. Overall seven interviews were conducted during April and May 2013.

The main finding in the study was that rate parity is becoming obsolete and the hotels need to react. However, the respondents felt that there are advantages in having rate parity, especially to the customers. Furthermore, the meta search is proposed to have a negative effect on the rate parity. From these findings a model on the relationship between the rate parity and the meta search is created, which guides the hoteliers towards focusing on the differentiation of rates and the separate value creation for each and every customer.

Keywords
Rate parity, meta search, google hotel finder
# Table of contents

1 Introduction.......................................................................................................................... 1  
   1.1 Purpose and objective of the thesis ................................................................................. 2  
   1.2 Research problem and scope of study .......................................................................... 3  
   1.3 Key concepts .................................................................................................................. 4  

2 Online distribution of hotel rooms..................................................................................... 6  
   2.1 History and development ................................................................................................. 6  
   2.2 Online distribution of hotel rooms ................................................................................. 7  
      2.2.1 Merchant Model ....................................................................................................... 9  
      2.2.2 Transparency ......................................................................................................... 12  

3 Rate Parity and meta search engines ................................................................................. 13  
   3.1 Rate parity ....................................................................................................................... 13  
      3.1.1 Controversy over rate parity .................................................................................. 16  
      3.1.2 Best price guarantee ............................................................................................... 17  
      3.1.3 Customer perception on pricing ............................................................................ 18  
   3.2 Meta search .................................................................................................................... 19  
      3.2.1 Google Hotel Finder .............................................................................................. 21  
      3.2.2 Meta search and rate parity .................................................................................. 24  
   3.3 Summary of the conceptual framework ......................................................................... 25  

4 Research methodology and data collection .................................................................... 26  
   4.1 Qualitative research ........................................................................................................ 26  
   4.2 Inductive approach ......................................................................................................... 27  
   4.3 Justification of research methods .................................................................................. 28  
   4.4 Data collection ............................................................................................................... 29  
      4.4.1 Expert interviews ................................................................................................... 29  
      4.4.2 Formulation of questions ....................................................................................... 30  
   4.5 Data collection process .................................................................................................. 30  
      4.5.1 Selection of interviewees ....................................................................................... 31  
      4.5.2 Profile of interviewees ........................................................................................... 32  
   4.6 Limitations of the process .............................................................................................. 32  

5 Results and findings of the interviews ............................................................................. 34
1 Introduction

The online distribution of hotel rooms has been in turmoil for past 15 years. Increased use of the internet has created a need to serve the transient customers across the globe with interesting room only rates in order to beat the competition. Consequently, the online pricing strategies have become major issue for the hotel companies. (Gazzoli, Kim & Palakurthi 2008, 377) The change in strategies has lead to the establishment of dynamic pricing with the best available rates from the traditional rack rate. (Tranter, Stuart-Hill & Parker 2008, 20) With the changes in online distribution landscape phenomena, such as online travel agencies (OTAs), hotel rate parity and meta search engines have become everyday topics in the hotel revenue management.

In other words the dominance of internet has offered to the customers an easy access to book hotel rooms online. Currently, the hospitality and tourism industry, especially hotels, are the top industry in the online transaction volume. (Toh et al. 2011a, 183) This has resulted in a current on-going discussion over issues such as a price-fixing, and handful of the OTAs having the control of online bookings (Edleson 2013; Schaal 2012). In fact, hotels have been slow to react to the online distribution of hotel rooms (Edleson 2013), which has let the online pricing issues to increase and become more severe with the more business oriented OTAs.

Thus, there exists a need for a change especially with the current online distribution landscape. Hoteliers are thought to be stuck with being very service oriented. They have not been able to see the online distribution in a same way as the online travel agencies, whom seem to be making high revenues. Additionally, it seems that the hoteliers believe that the hotel room is not a commodity and it will not become one. However, many other travel and tourism products have become commodities for example, the airline seat. (Toh et al. 2011a, 182)

For the purpose of this thesis research, the focus is on the hotel rate parity and meta search of hotel rooms for a transient customer. The transient customer is an individual traveller, who is price conscious and part of the main consumer group for the hotel
rooms sold online. This customer segment was chosen to narrow down the topic, but also because the hotel rate parity in online distribution mainly considers the transient customers. One of exceptions to this is, an individual small travel agency booking through OTA or brand.com on a best available rate.

At the moment, the hotel industry is trying to shift the power back to them, and there is a concern about the future. During the thesis process the online distribution landscape has been reforming itself aggressively and there exists a need for a new insight on the rate parity. The author has been interested in the revenue management and specifically the online distribution of hotel rooms, since the start of her studies. During an internship in Dubai, she got a chance to understand further the topic studied, which led to an idea to write her thesis on the rate parity and the meta search of hotel rooms.

1.1 Purpose and objective of the thesis

The main purpose of the thesis research is to determine whether the hotel rate parity is becoming obsolete. The meta search of hotel rooms is growing, as the customers are focusing with increasing numbers on finding the cheapest rate available. This threatens the brand.com pricing and hotels’ rate parity strategies, since the customers can easily compare rates by using the meta search. Furthermore, the aim is to start a discussion for developing the current revenue management practices and help to distinguish possibilities for new pricing strategies. At the moment, there is a lot of discussion on the topics studied, but it seems that the discussion is limited on whether rate parity is becoming obsolete or not.

Thus, the main objective of the research is to build an insightful model from the current situation. The model is to be used during the next few years by the hotel revenue management professionals. Moreover, the model studies the relationship between the rate parity and the meta search as well as develops further the future steps with rate parity and online distribution. The model is only preliminary work to start a discussion. In addition, the conceptual framework on this topic is limited and therefore the literature review is done by explaining the base for the topic, exploring the key concepts and then going through to the research.
Firstly, this thesis studies the current theories and ideas on online distribution, rate parity and meta search as well as the role of Google Hotel Finder. In order to give the reader thorough overview, the history of hotel revenue management and online distribution are explored in detail. Next the key concepts are discussed further and the current ideas and models are studied. Since the topic is very current and evolving, there is no significant theory within the key concepts to really explain phenomenon of rate parity or the meta search. Therefore, the rate parity and the meta search are explained through the industry views and thoughts on them.

The thesis research was done by interviewing five people working in a hotel group level revenue management position and two persons who are either in education or consultancy business. Interviews allowed building an understanding on the interview respondents’ point of views with the needed depth. Additionally, in-depth and expert interviews allowed highlighting the possible changes in the online distribution practices and the hotel rate parity. From analysing the data and through the discussion on the key finding in relation to the conceptual framework, the insightful model and conclusions were drawn.

1.2 Research problem and scope of study

The research question studied in this thesis is: How the hotel rate parity has been affected by the meta search of hotel rooms?

As the literature review in this thesis will shortly explain, the online distribution of hotel rooms is topic with a larger number of sub-topics to study. Therefore, the focus of the research was put on the meta search of hotel rooms. It has been the more price conscious consumers that created the need for meta search of hotel rooms. Thus, the chosen research question helps to study the relationship between the rate parity and the meta search.

In addition, from all the meta search engines, Google Hotel Finder was chosen to be in special focus. Google Hotel Finder is first of a kind, as already a major player, in online
business, is stepping into the playing field of hotels and OTAs. With the entrance of Google there can be expected to be changes in the online distribution of hotel rooms. The research also tries to find conclusions for the role that Google Hotel Finder will take and what kind of changes there will be on the online distribution of hotel rooms as a result from the entrance of Google Hotel Finder.

Therefore, two supporting questions were formed for this research to fulfil the set purpose and objective:
- How hotel online distribution professionals see hotel rate parity?
- What type of role Google Hotel Finder will take?

1.3 Key concepts

**Hotel Revenue Management:** Defining hotel revenue management is done most efficiently by looking at only the term revenue management. Revenue management is a set of revenue maximizing strategies and tactics that are expected to increase profitability of a business. (Forgacs 2010,3) Thus hotel revenue management definition can be derived to be a strategies and tactics to increase revenue and profitability in a hotel or group of hotels.

**Rate Parity:** In simple terms, rate parity can be defined as similar rates (Toh et al. 2011a, 183). When talking about the hotel room online distribution the term can be expanded to little bit further to be: setting the same rate structure across different channels (Gazzoli et al. 2008, 376). For the purpose of this thesis, the best definition is the combination of the two: having similar rates across all online distribution channels.

**Online Travel Agency (OTA):** “Electronic service and product provider that acts as an intermediary between hotel and customer” (Tranter et al. 2008, 105). This report mainly considers the online travel agencies that use the merchant model.

**Meta Search Engines:** These are websites that combine different rates across all the OTAs in order to find out the best deal or price for a customer (Tranter et al. 2008, 106). In some literature, meta search engines are also known as referral sites, but as the
focus in the thesis is on meta search and especially Google Hotel Finder the term meta search engine serves the purpose more efficiently.

**Transient Traveller:** According to Toh et al. (2011, 181) transient traveller is an individual making a reservation. On other hand, transient traveller has also been defined as temporary individual hospitality customer (Tranter et al 2008, 42). Thus, the definition for transient traveller could be defined as an individual customer making a reservation to any hotel.

**Best Price Guarantee:** Is a term that has become over last couple of years a household term in the hotel revenue management and online distribution. Toh et al. (2011a, 183) defined best price guarantee as matching the rates found on the OTA. Idea is to match cheaper than brand.com rate found on OTA in order to guide the customer to the brand.com instead of OTA website.

**Rate transparency:** Ability for customers to see the rate for each night of their stay. In other words, when customer books a stay for three nights in a hotel the customer can see the price for each night of their stay separately. Another term that links to rate transparency is an information transparency, which is the degree of visibility and the accessibility of information. (Tanford et al. 2012, 214)

**Merchant model:** The most successful selling model of hotel rooms online. The merchant model is an agreement between hotel and electronic merchant that allows the merchant to sell from a hotel’s inventory of rooms’ at the best available rate and take away the agreed commission from the price paid by the customer. (Forgacs 2010, 90; Toh et al. 2011b, 183)

**Distribution channel** is created away from the location or production or consumption of a product (Lim & Hall 2007, 332). Online distribution channels are optimal for hotel rooms as they are perishable and intangible.
2 Online distribution of hotel rooms

This chapter gives the reader a brief overview of the hotel revenue management and the online distribution of hotel rooms. Purpose of this chapter is to introduce the reader to the basic concepts behind the actual thesis work and the key concepts studied. As this chapter shows, the hotel revenue management is still a rather new topic in the field of hotel management, not to mention the online distribution of hotel rooms. In addition, the online distribution of hotel rooms has been a current topic for the past few years, for number of reasons covered partially in this chapter.

2.1 History and development

The history of revenue management begins from the USA. In the 1970s, the regulations on the commercial flights were released, and so the first forms of yield management were introduced, with the main purpose to increase the total revenue of an airline. (Tranter et al. 2008, 20) As the, airline and hotel industry, are working with the intangible and perishable items, the yield management offered a solution to optimize revenues in the hotel business as it had been with the airlines. Little by little, the hotel chains in the USA started to apply the airline yield management techniques in selling and pricing the hotel room inventory. During the 1990s, with the introduction of the internet, hotels took their time to realize the potential of the internet. (Forgacs 2010, 88)

To begin with, before the internet, hotel bookings were done mainly either through central reservation offices or travel agencies. When the use of the internet grew, transient bookings shifted to the online channels, where the OTAs were a few steps ahead of the hotels. Indeed, at the beginning of 1993 less than 50 % of the major hotel chains had some form of a booking opportunity available online. By 2003, the same number was already over 80 %. In addition, from these studied hotels 78 % sold rooms through sites such as Expedia.com and Travelocity.com. (O’Connor 2003, 91-92) The growth of the online distribution made the intangible hotel room easy to sell. In addition, the positioning of hotels and the different rates, offered by the hotels, were made easy for intermediaries as well as hotels to work with (Toh et al. 2011a, 181). These
changes lead to an increased importance of the hotel pricing strategies as well as the hotel revenue management strategies.

Evidently, the development of online distribution of the hotel rooms has been slow form the hotel side. Thus, the hotel price discrepancies have taken their toll on the customer perception. Hotels have not been able to manage their pricing through all the online channels applied by them. In addition, before internet there existed different rate structures for different markets. However, this changed when the use of internet boomed. Therefore, customers became educated to look around and find the cheapest rate available. (Gazzoli et al. 2010, 376)

Part of the problem is the number of different types of rates that hotels offer for a certain date. Peter O’Connor (2001, 70) noticed in his research that one hotel had 29 different rates available online, for the same room on the same date. Hence, the customers learned to search and compare prices (O’Connor 2001, 70). In other words, customers became more price conscious. So far it seems that the budget hotels have been much better in cleaning the price discrepancies when compared to the four stars and above ranked hotels. From five star hotels less than 30 % had consistent rate in 2003, when almost 90 % of budget hotels had indeed consistent rates. (O’Connor, 2003)

2.2 Online distribution of hotel rooms

The online distribution of hotel rooms has become an important part of everyday operations in the hotel revenue management, as discussed already. The reason behind the growth of the online distribution of hotel rooms seems to be due to the customer wishes. When internet and online distribution were still developing, six out of ten customers expressed that they prefer buying travel services online (O’Connor 2001, 57). At the same time, the hotels had been lacking behind in controlling the online distribution landscape and offering their own rooms at brand.com. For a certain time there were no coherent tools for hotels to gather business intelligence or analytical models in order to analyse their business (Estis-Green & Lomanno 2012, 15). However, today there are an increasing number of tools present for the hotel revenue managers to use in order to collect market intelligence and analyse their own pricing strategies for
online distribution. Two of the best known tools today are Smith Travel Research and TravelClick.

The increased role of online distribution has brought up a need for new technology, more centralised reservations systems and more educated customers (Tranter, Stuart-Hill & Parker 2009, 104; Forgacs 2010, 44). As the systems have developed and channels increased, the revenue managers have been faced with a choice regarding the optimal channel mix. Lately, many hotels have been slowly implementing the online channel management systems and creating a new value for their product by introducing new innovative online channels. (Chaffey & Smith 2009, 94)

First of all, changes to a distribution channel management tend to take time. Thus, the third party operators such as the OTAs have been able to take over the preferred channel choice for the online transient customers (Estis-Green et al. 2012, 2). In addition, the OTAs have a great advantage over the hotels due to the varied offerings they have. This has left the hotels behind while the OTAs have been able to play with the prices. For example, offers, such as stay three nights for the price of two nights, are most of the time OTAs own offers. In addition, the hotels with the highest conversion rate can be set to be high in the OTAs’ own hotel search. Thus, OTAs are offering the customers exactly what they are looking for. (Toh et al. 2011a; 184) It is good to note that the customers today are not fooled by these settings, as they are increasingly more educated in using the sort feature, such as sorting the hotels by price (Miao & Mattila 2007, 540).

Consequently, active revenue management principles are required from the hotels. Effective control of pricing and brand value are necessary, if a hotel wishes to have influence over the OTAs (Estis-Green et al. 2012, 6). Coincidentally, the hotel chains are becoming more educated with the online distribution. However, this might not always be the case especially with the individual hotels (Hall & Mun Lim 2008, 333) that do not have the needed resources. Currently, it seems that the pricing power is shifting back to the hotels. However, the customers are not yet finding their way to the
brand.com. This might be due to the selection of different hotels available and packaging opportunities on OTAs. (Toh et al. 2011b, 393)

Indeed, the packaging of the different products online has become an important part of the business. The main purpose of the packaging is to create a customer perception of value by adding value creating elements to the basic product (Forgacs 2010, 84). For example, breakfast, airport transportation, late check-out and access to a beach in city location, are all value adding features. Quite often the third parties, such as the OTAs, prevent the hotels from showing the actual discount when the hotels are bundled with an airfare or a rental car (Tanford et al. 2011, 231). This has lead to a discussion on rate transparency and customer perception. Both topics will be discussed in more detail later on in this thesis.

In addition, few main concerns have risen within the researchers due to the significant role of the OTAs in the online distribution of hotels. First of all, as the online distribution landscape keeps changing, OTAs aim to become a soft brand for their client hotels. This is done by various ways, such as; OTAs are trying to maintain their online presence, create revenue volume for the hotels, to offer an effective way to ensure guest satisfaction and to offer loyalty programs. All of these are something that the hotel brands do as well offer. Secondly, the volume of hotel room bookings, through the OTAs booking channels, is so large that there is a wonder where the power of pricing lies. In 2011, hotel rooms sold through OTAs were 11% of overall demand of all hotel rooms sold, which is significant amount when all the possible channels are taken into consideration. (Estis-Green et al. 2012, 3-4) However, the current recommendations are to shift the focus back to the offline booking channels little by little (Landman 2012) evidently giving a reason to believe that the online bookings might be in decline or reached their maturity stage.

2.2.1 Merchant Model

For the purposes of this report, the online travel agent model chosen to be studied is the merchant model. There are other models for OTAs such as opaque or retailer model. However, they do not have similar role in the existence of rate parity as the
merchant model has. Big OTA websites, such as Expedia.com, Hotels.com, Booking.com, Travelocity.com and Orbitz.com, are all using one form of the merchant model (Tranter et al. 2008, 106). Furthermore the OTAs that use the merchant model are the ones present in the meta search engines. The merchant model can be thought as one reason for the creation of meta search, since the OTAs have power to differentiate their rate little with modifying fees and taxes of a hotel room (Landman 2012). Hence, the merchant model was the chosen model to focus the study on. There are many issues to study with opaque and retailer, but these are not so much related to the meta search engines when compared to the merchant model.

What the merchant model means is that, the hotel room is sold on the best available rate, whilst agreed commission is taken away from the rate by the OTA, when the room is purchased by a customer. (Starkov 2010) It has been a long road to reach this form of merchant model. First, hotels sold their inventory straight to the OTA, but as the price discrepancies started to grow and customers noticed them, hotels needed to implement pricing strategies in order to bring the demand back to them and to the brand.com. (Tranter et al. 2008, 106) Thus, hotels started to sell rooms on the best available rate to all online channels this also made serving the rate parity significantly easier.

One characteristic of the merchant model is the listing of hotels. As mentioned earlier, the hotels with the highest conversion are typically set highest in the organic search results. In most cases, the customers choose from the first screen of results. This means that also the OTAs want to build up a strong relationship with those hotels that can bring most revenue to them. Thus, the hotels that have high commission and conversion rate have the highest ranking in OTA. (Forgacs 2010, 91) However, it is necessary to keep in mind that customers are getting more educated, and they prefer to change the listings according to price or any other feature they are looking for (Miao et al. 2007, 540).

There is an ongoing conversation regarding the structure and the need of merchant model. Firstly, systems such as the one that Expedia.com has works in direct connec-
tion with property management, central reservation or revenue management systems. However, smaller individual hotels do not have these expensive interfaces to use and they have to manage their inventory and prices on the OTAs’ extranet. Therefore there exists high probability for mistakes in the rates and hotel availability information. Secondly, high commissions to OTAs have become a burden for hotels. (Starkov 2010) For example, the hotel chains can pay up to 25% in commissions to an OTA (Stoessel 2012).

In fact, the future of merchant models as we know is a very current topic of a discussion within the industry. Starkov (2010) suggested that by 2015 there is no longer such thing as merchant model in hotel online distribution. The argument is based on the fact that, hotels are getting tired of high commissions and that, the merchant model has already disappeared from the sales of the airline seats and rental cars. In addition Mayock (2012a) does suggest that the merchant model will be replaced by “commission-override model” in this model the OTA gets better commission when booking volumes increase. Many hotel chains have really put focus on the rate parity and the best price guarantee, in order, to move the customer focus from OTAs back to the brand.com. (Mayock 2012a)

Overall, there has been discussion on who has the pricing power in the merchant model. In summer 2012, Expedia alongside with other OTAs and some hotel chains were sued for price-fixing. The court case is based on the fact that customers are made to believe that they can shop around since the best price guarantees protect them, but the prices are similar across all the channels, which means that the prices available might not be the best ones after all. The view is that the OTAs have forced the hotel chains to agree on the best available rate and not let the market do its work. (Safdar 2012) However, industry view is that the hotels have wanted to have the same rates across the channels, (Mayock 2012a) but at the same time they have lost the power in pricing.
2.2.2 Transparency

Transparency has become an often used and an important term when discussing the online distribution of hotel rooms. Since the prices are easily available for the hotel to analyse, they can develop their own pricing strategies and follow what strategies the competition is using. The downside is that the customers can now observe the pricing of any hotel and compare competitors accordingly. (Tranter et al. 2008, 123)

Internet and transparency has lead hotels to compete in price rather than the value created (Noone, McGuire & Rohlfs 2011, 297). Evidently, the price is the main factor affecting the purchase decision: lower the price and more available the separate price for each individual night is, happier the customer. However it would be worthwhile for the hotels to invest in the price transparency, the price savings need to be transparent also in the package bundled prices. Otherwise the customers are more likely to choose the opaque model pricing over the merchant model pricing. (Tanford 2011, 229-230)

Additionally, there is limited research done just on price transparency. The hospitality researchers have agreed that the price transparency plays an important role, but it is the actual information and value created to the customer that pushes the purchasing decision. (Tanford et al. 2001, 230; Miao et al. 2007, 540; Tranter et al. 2008, 123) Customers do not always understand why the rates differ from one website to another. This has been a key reason for implementing rate parity. (Tranter et al. 123) Rate parity will be discussed in detail in following chapter.

Moreover, customer perception on the transparency in the pricing of packaged products has been positive. Positive perception is due to the availability of information (Tanford 2011, 230). Customer decision on purchasing in a high transparency circumstance is not made according to price, but according to the information shared (Miao & Mattila 2007, 540) thus, rate transparency seems to lead to the overall customer satisfaction. However, if the information on pricing is not clear, the customer perception is negative. Transparency of internet has been a backlash for the hotel revenue management practices due to the possibility of negative perception. (Lieberman 2011, 42)
3 Rate Parity and meta search engines

With the support of previous chapter, the key concepts used in this research – meta search and rate parity are discussed in this chapter. First, the term rate parity is explored and from there on the meta search is discussed and explained to the reader. As a part of the meta search also Google Hotel Finder is presented and briefly discussed from the material available. The relationship of rate parity and meta search is studied from the theory point of view briefly, but as mentioned there is not any significant theories available on the topic. This chapter aims to introduce the reader further into the topic and open some of the reasons behind the chosen topic.

3.1 Rate parity

The increased use of online distribution, and the globalization, shifted the pricing of hotels to a new direction. No longer were there individual markets that were priced according to the needs of a market. Now, there were customers all over the world wishing to book via the same medium at the lowest available rate. (Toh et al. 2011a, 181) Hence, there was a need for consistent pricing structure across all the channels. However, currently the markets are shifting to more individual markets, where the need of rate parity can be questioned (Mayock 2012a).

One of the key topics in the hotel revenue management is the OTAs’ own special rates as well as an effective channel management, by having a consistent rate structure across the online channels. Number of researches on the rate parity and online distribution have found out that the customers will trust more on brand.com rates when the rate parity exists across all channels (Gazzoli, Kim & Palakurthi 2007, 376; Toh et al. 2011a; 186). In another study by Toh et al. (2011b, 389) it was found out that the customers search for the hotel option online, after this look into a brand and eventually end up booking through the brand.com or hotel direct, if no price discrepancies exist and the value is not differentiated. (Toh et al. 2011b, 389)

Furthermore, there are more reasons to have rate parity. These are the gain in customer trust, decrease in costs related to not having the rate parity and the transparency
of the internet. Customer perception on pricing of an individual hotel depends on how the prices are presented across the channels. Change in prices has to happen in all the channels, in order for dual entitlement in the customer relationship. A dual entitlement is when both parties perceive the pricing and the transaction fair and mutually beneficial. Research has found out that the rate parity and the best price guarantee are needed for establishing beneficial customer trust. (Gazzoli et al. 2007, 376) On other hand Toh et al. (2011a, 183) suggested that the rate parity is just a theory rather than practice, which of course questions rate parity’s real benefit to a customer, a hotel or an OTA.

Moreover, the costs related to not having a rate parity link to electronic distribution channel costs. The load of commission can be rather stressing for a hotel (Tranter et al. 2008, 108). Since the OTA commissions are very high, as presented earlier these costs can be as high as 25%, the labour intensive costs could indeed prove to be cheaper for a hotel (Toh et al. 2011a, 183). This argument sets a shadow over the necessity to have the hotel rate parity and the effort put into maintaining it. However Gazzoli et al. (2010, 378) argued that as the intermediaries have such a big part in revenue creation, not having rate parity could be more expensive for the hotel, since the customers might not find as easily to the brand.com.

Currently, the hospitality industry is discussing whether the rate parity is really becoming obsolete. The customer segments are changing and the different customers are looking for different products. The view of revenue management professionals seems to be that the hotels should be able to set different rates across different channels according to the needs of a hotel. In addition, some of these professionals argue whether the OTAs should be even allowed to achieve rate parity with brand.com. (Mayock 2012a) However, it is the public nature of OTAs that makes it hard for the hotels to sell customised rates for customers. This has lead to a thought that one rate is good for all of the transient customers from all over the world. (Estis-Green et al. 2012, 10)

Nevertheless, taking an advantage over the individual needs of a transient traveller takes plenty of innovation and experimentation. New ways to set up online distribution channels and justification for not having rate parity needs to be implemented and
communicated effectively to the hotel customers. However, individually set prices help to avoid commodity trap. Anything can be differentiated and anything can be sold at any price as long as the target customer is known. (Baker 2011, 76-77) As already mentioned, hotel rooms are becoming commodity, which the hoteliers are unwilling to recognize.

Competition in the pricing has lead hotel prices to dilute. The price transparency has lead hotels to compete with the price. There are all in all three reasons for the prices to decrease. First of all, educated customers believe the rates to be lower closer to the arrival. The customer lead time has decreased little by little, which has placed more focus on the last minute revenue management. Secondly, the power of OTAs, in the search of a hotel room, has produced a pressure to keep rates low and keep competing with price rather than with services or value. Thirdly, the common misconception within the revenue managers is that the lower rates will help to make most revenue. (Estis-Green et al. 2012, 10) In reality the revenue is best optimized by using a number of rates individually for the different customer segments (Van Meerendonk 2012).

Price dilution and rate parity is precarious combination for the hotels. Commissions and direct connect payments, that hotels pay to the OTAs, are already very high. IDEAs webinar for revenue managers identified that even if the volumes rise, the revenue will most likely decrease, as the prices are decreased when hotels are aiming for higher volumes. Indeed, revenue from the hotel rooms is highest when different rate structures are offered to each customer segment individually. (Van Meerendonk 2012) Not only is there a decreasing revenues problem, but the hotel revenue managers tend to perceive negatively any hotel that tries to win by diluting rates (Toh et al. 2011, 188).

Currently, the packaged products are sold with closed pricing. As discussed earlier, this is a threat when talking about price transparency as customers prefer to see exact details on what they are paying for. However, at the same time closed package pricing on OTAs offer an opportunity for maintaining the rate parity online with the room only products. (Mayock 2012a) However, if the packaged products would have transparent
pricing, discussion on pricing as well as customer knowledge and awareness would increase (Miao et al. 2007, 540). Hence, a risk to the real integrity of hotel pricing would be present.

3.1.1 Controversy over rate parity

As mentioned already, the rate parity and the relationship between hotels and OTAs are currently being handled in the court, in the USA. There are also some other cases currently coming within the European markets. In essence, the rate parity agreements are seen violating antitrust legislation as they set the rate on a certain level. (Safdar 2012) One must wonder who is setting the rates, is it the hotel or can the OTA limit the minimum and maximum? In the Scandinavian markets, a number of hotel chains are not reviewing their contracts with Expedia, due to the similar question over the rate parity and pricing power. For example, Nordic Choice hotels were the first ones to leave Expedia and shift strategies. The Nordic Choice -chain felt that they had no pricing power over its inventory and Expedia was just taking higher commission with no return the hotel chain. (Mayock 2012b)

Not only are the rate parity agreements thought to be anticompetitive, but the real rate parity is hardly ever achieved. For example, in a study conducted 2007, 66 % hotel chains in USA had some form of rate parity in the domestic markets, but only 17 % of studied hotel chains had rate parity on the international markets (Gazzoli et al. 2007, 381). In addition, Toh et al. (2011a, 183) found no rate parity either in the domestic or the international markets. They indeed concluded that the rate parity is more of an ideal than operational certainty. (Toh et al. 2011a, 183)

Moreover, there are three reasons why theoretical rate parity cannot be achieved. First of all, the rate changes do not immediately show on the OTA website. Secondly, the OTAs’ might offer their own stay three nights, pay two nights offers. However, the bigger hotel chains have been able to negotiate contracts with the OTAs that prevent these offers from happening. Thirdly, both the brand.com and the OTA could easily offer non-refundable independent rates that risk the rate parity. (Toh et al. 2011a, 183)
already discussed by O’Connor in 2003 (96). Back then, discussion on offering competitive rates was one of the reasons leading to the current rate parity agreements and best price guarantees (O’Connor 2003, 96).

3.1.2 Best price guarantee

With the increasingly popular focus on the hotel rate parity and the consistent rates across the different channels, in addition the international hotel chains have introduced so called best price guarantee. With the best price guarantees, the hotels are simply trying to match the rates found on the OTA booking channels. By offering extra discount, the hotels try to move the customers more towards the brand.com. (Toh et al. 2011a, 186) Best price guarantees were created to encourage the hotels to maintain rate parity as well as offer a solution for the negative customer perception on price discrepancies that could not have been avoided. (Tranter et al. 2009; 123)

Many of the larger hotel chains have implemented the strategy with very similar terms and conditions to the guarantees. For example, Jumeirah Hotels & Resorts and Marriott International have a similar best price guarantee promise:

“If the lower hotel rate you found qualifies, Jumeirah will adjust your reservation to reflect the lower price and will give you an additional 15% off that rate (subject to the following terms and conditions)” (Jumeirah Hotels and Resorts 2012)

“Find a lower hotel rate and we’ll match it give you an extra 25% discount” (Marriott International 2013)

Thus, the hotel chains offer a notable discount on the rate, if cheaper rate is found somewhere else online. Best price guarantee is a one possible answer to problems with rate parity and easy way to monitor whether the OTAs are following their contracts. Therefore, these guarantees can be said to promote harmonization of online distribution channels (Toh et al. 2011a, 186).
However, customers have become even more educated in finding the cheapest rate available, and in using the best price guarantee, therefore no one wins. Best price guarantees help the hotels gain important intelligence on where there might be inconsistent rates. On other hand, the court rulings might change the need for the best price guarantee. It does seem that group level revenue management directors and managers need to really evaluate the purpose and the meaning of the court cases. (Toh et al. 2011a, 186) In addition, what is the role of best price guarantee when the OTAs also have them?

### 3.1.3 Customer perception on pricing

When discussing about rate parity, the customer perception is in an important role. The topic has already been discussed briefly in this report. Customer perception on pricing is a topic that has been studied widely and there are various theories. In regards to the hospitality industry and the rate parity, one common theory is that the customers base their purchasing decision on the value, rather than on the price. On the other hand, if the prices are different in the different booking channels and the information for the difference is not transparent, the customer gets confused. (Forgacs 2010, 78-80) O'Connor (2001, 68) found out that when there are too many rates available at the same time for a hotel, the offerings become overwhelming for most customers.

Thus, it all comes down to the value creation. Modern research on pricing suggests that there is no such thing as too high price, as it all depends on how well you have created value for the customer (Baker 2011, 281). This view could be perhaps implemented in the hospitality industry. Since the customers look for the cheapest price available (Gazzoli et al. 2010, 376), why not add more value to the hotel brand.com rates or rates on the OTA channels. After all, the research has shown that the best rate guarantee do not move all the volume to the hotels, that have to keep paying the high commissions to the OTAs (Forgacs 2010, 80).

The general impression is that the rate discrepancies have had negative effect on the customer. It is true that the rates confuse and overpower the customers sometimes. Nevertheless, there are also positive effects. Every customer has their specific needs
and different rates give options for larger volume of customers. (O’Connor 2001, 68) Therefore, customers could be segmented even better by adding different value to different rates.

However, the customer dissatisfaction does have a significant role when talking about pricing of hotel rooms. If pricing is perceived unfair by the customers, the customer satisfaction naturally decreases. Quite often the unsatisfied customer will tell to their friends about bad service or price discrepancies they have found. Indeed the customers today tell their opinion in Facebook or in Tripadvisor. These mediums reach more people than, what is in, customers, immediate friend circle. Indeed 60 % of consumers use the word-of mouth as a reason to do search on any type of business; from these people almost 40 % get the information through social media (Google 2011, 34). Since the perceived fairness is so important for the brand image, decreased satisfaction can be a big hit to the profitability of a hotel (Gazzoli et al. 2007, 377). Therefore, e-commerce strategies play important role in pricing discussion.

According to Liebermann (2010, 41), a good revenue management means that each and every customer is offered what they want. Previously discussed value creation is exactly the tool for offering each individual customer what they want. Liebermann (2010, 41) also points out that today the terms and conditions of any service provider will ensure that customers and hotels get what they are entitled for.

### 3.2 Meta search

Due to the price discrepancies across the online booking channels, the meta search of hotel rooms was first introduced. (Landman 2012) As discussed, there are various reasons for the price discrepancies, such as educated customer that does not need to or does not want to understand why the pricing is different on the different booking channels, or that different OTAs have a different commission structure, or that an effective channel management requires a lot of resources from the hotels. In other words, the meta search is a solution for helping the consumers to find the cheapest rate available. (Tranter et al. 2008, 106)
Similarly to the merchant model, the meta search places results according to the highest conversion rate and revenue creation. Meta search engines operate with commission from the bookings made or, in some cases, on pay per click pricing. Similarly to OTAs, brand.com and OTA channels are placed better in search if they pay more to the meta search provider. (Tranter et al. 2008, 106) Landman (2012) argued that OTAs are possibly cutting the taxes and fees, in order to, place their products higher. Moreover, since all the online channels are available for the transient customer at once, the hotel rate parity can be seen threatened by the meta search engines. Simply, the meta search makes the inventory and channel control highly crucial in the daily hotel revenue management operations. (Estis-Green et al. 2012, 11)

The emergence of meta search has also brought new actors to the hotel online distribution business. At first, the meta search was run by operators such as Kayak.com or Trivago.com. Now, the industry is facing the appearance of so called gatekeepers. Gatekeepers are powerful companies, financially and demand wise, which already dictate internet search and marketing. For example, Google, Apple and Facebook are all gatekeepers. These giant companies act as preferred points of entrance for many consumers that are confident in using the internet. Companies, such as Google, can centralize their already existing search material and significant customer knowledge to form powerful and yet easy to use meta search engine on their own. (Estis-Green et al. 2012, 2)

There are also positive aspects to meta search. To begin with, meta search makes observing hotels’ own and competitors’ pricing strategies even easier than before. Indeed, the meta search engines are feeding the highly valuable market intelligence to the companies at a one go. Secondly, the meta search can create competition between OTAs as selling through the meta search will cost them more than to the hotels. In best case, the hoteliers will be the ones to take an advantage of meta search. (Estis-Green et al. 2012, 6)

In addition, the reliability and the competition creating nature of the meta search is under an attack. The two big OTA actors Priceline and Expedia have been purchasing
smaller actors, and some of the latest procurements have been the two major meta search engines – Kayak.com and Trivago.com. Obtaining of the meta search engines is most importantly a strategic move from the OTAs. Moreover, this risks the fairness of the pricing and the customer perception on hotel room pricing. OTAs seem to be looking ways to increase the traffic on their own channels, and through meta search they can position their own channels better in order to attract customers to their own booking engines. (Edleson 2013)

Moreover, a big concern is that can the customers spot the sponsored results from the organic results. Sponsored results are those that show up high on search due to the extra money paid to service provider, or if they are results for the service providers own products (O’Connor 2009, 234). If customer does not realize the ad to be sponsored, it affects the customer purchasing decision negatively. Currently the thoughts are on what will happen now as the major meta search engines are in the ownership of two of the biggest OTAs (Edleson 2013). Thus, biases can be easily created when search results show to the customer, the most paying rather than the most suitable hotel (Estis-Green et al. 2012, 8).

3.2.1 Google Hotel Finder

Google Hotel Finder is one of the many meta search engines. However, it is different from the other meta search engines. The Google Hotel Finder is an addition to already large Google product family, and it relies heavily on the already existing Google products. For example, it uses Google Places to gather customer reviews and places hotels on a Google map. Furthermore, Google Hotel Finder shows the cheapest rate for an individual hotel within the organic Google search. It is worth noting that Google Hotel Finder does not show to the customer the brand.com price, but direct link is always offered to the brand.com. (Marcec 2012, 2) In order to get brand.com rates to show up in Google Hotel Finder search results, the hotel revenue management departments need to push their CRS or PMS providers (Landman 2013).

So, how does Google Hotel Finder work? In essence it combines any information that is already available from the Google’s own algorithms, existing products, and pulls it
from OTAs and competitors, such as Kayak. (Marcsec 2012, 2,5) When customer makes a search on Google, for example hotels in Stockholm, the Google Hotel Finder result will show within organic search. This is illustrated in Picture 1. The cheapest rate for the hotel will be the one shown within the search. In addition, the reviews and the ranking will be available immediately. Customer can either choose to go straight into the booking or look into the content that is available on Google Hotel Finder.

Due to being part of a large internet company, Google Hotel Finder has many advantages over the other meta search engines. The information can be gathered from various places just within Google’s own products. Since the hotels already advertise with Google, there is a natural industry interest towards the product. Moreover, Google has introduced a flight search and other travel related services. Therefore it can be said that Google is making travel a one customer experience, and could possibly shift to packaging of travel products and services. The vice president of Google Travel described role of Google Hotel Finder as something that gives right option to the customer right from the beginning. (Marcsec 2012, 2)
Another considerable advantage is the OTA role that Google is possibly taking. As Google charges for the clicks, it has become one form of online travel agent. Their fee per click is significantly cheaper than commission paid for OTAs, thus making Google Hotel Finder attractive tool to use and focus on in hotel revenue management. Conversely, if Google manages to capture the customer experience with Google Hotel Finder, they will step into competition and this may lead to rise in charges related to Google travel content. (Marcec 2012, 7) The commissions paid by hotels to OTAs are expected to double within next three to five years. (Estis-Greene et al. 2012, 2) Therefore, Google Hotel Finder is at crossroads where it can choose where they can decide on which direction to take the tool.

On other hand, there also exist disadvantages with Google Hotel Finder. Google has been criticized about showing the meta search results within the original search, since it makes harder for the customer to see what is the real result of their search, what is sponsored and even to realise that every Google Hotel Finder link clicked means money for Google. (Marcec 2012, 3; Schaal 2012) Secondly, so far Google has been acting as a service provider, but Google Hotel Finder is placing Google as a competitor for the hotels and for the OTAs. (Marcec 2012, 5) This supports the earlier presented idea regarding the online gatekeepers.

One key trend with Google Hotel Finder has been the change in customer behaviour. Traditionally, customer makes a search and then focuses on the hotel brand and they book the hotel room via cheapest or otherwise the most suitable channel. However, with Google Hotel Finder the whole search is in one package, making the process for an individual traveller an experience. This means that Google has or is becoming the point of entry rather than tool to find the point of entry. (Estis-Green et al. 2012, 2) One could describe this as Google Hotel Finder kidnapping the branded search.

So far Google has been vague about how and where the information is collected for Google Hotel Finder. Hence, the customers cannot be sure how reliable the data is. (Marcec 2012, 2) Too much customer fed content, such as the content from Google
Places, can create biases within the search and affect negatively hotels (Marcec 2012, 5). For instance, Google Places rely relatively lot on customer reviews (Dreesen 2012).

3.2.2 Meta search and rate parity

Since the meta search is a product based on having the inconsistent rates online, it is worthwhile to explore the relationship between meta search and rate parity. As mentioned earlier, the trend in hotel revenue management online distribution strategies is to shift the power back to hotels. With the increasing number of meta search engines the hotel industry has come up with their own options for meta search such as Room Key. (Stoessel 2012)

Room Key is collaboration between many hotel chains. The purpose of Room Key is to create an online distribution channel that has lower costs for the hotels and at the same time build up a customer trust on booking via brand.com. Room key is also hoped to act as an intermediary between the meta searches, such as Google Hotel Finder, and brand.com. Especially, when the hotel direct rates are still not available online for Google Hotel Finder and some other meta search engines. (Stoessel 2012)

However, the role of Room Key has been seen in some cases as panic solution for price-fixing court cases as well as for the slow deterioration of rate parity (Mandigo 2012).

In addition, meta search is considered as a solution to cut online distribution costs. No research or industry professional feels that the brand hotels would leave OTAs, but through meta search, branded or not, the costs can be cut and more customers directed to the brand.com. However, the common view is that the hotels need to achieve the rate parity in order to shift the customer focus more towards brand.com. (Stoessel 2012) At the same time, discussion, on forgetting the rate parity and focusing on the value creation of products bought through different channel, is circulating within hotel industry revenue management professionals. (Mayock 2012a)
3.3 Summary of the conceptual framework

This chapter attempts to build a conceptual framework of the key concepts in this thesis work – rate parity, meta search and Google Hotel Finder. Currently, there is number of dialogue on the three key concepts in regards to hotel revenue management, but no theory build on them. The rate parity originated from the globalising world and through the increased use of the internet as a hotel room booking channel. However, hotels were thought to be too late with the online booking and the OTAs used this to take over the online distribution. This has lead to a discussion on the future of the rate parity and who really has the pricing power of hotel rooms online.

In order to fight the OTAs, hotels have introduced with increasing numbers the best price guarantees. It is a way to lure the customer back to your hotel when there is inconsistency between rates. So far, the best price guarantee has been good way to add value for the customer. However, OTAs have also introduced their own best price guarantees.

The role of customer perception has been important in the formation of rate parity and meta search. With the meta search customers can easily look up the cheapest rate available, and pin point the price discrepancies. At the same time, the customers are given a chance to make the choice that suits them the best. Also, through the meta search, the rate and price transparency has become more evident to the customer. Industry is trying to fight the importance and easiness of meta search by introducing tools such as Room Key.

Due to the entrance of Google into the hotel room online distribution landscape, changes can be expected. On its own, Google holds a significant amount of information and most of the hotels use Google in their digital marketing. However, Google Hotel Finder role is a question mark to the industry, and the hotels are trying to come up with answers to what to do with Google Hotel Finder. Only time will show the real role of Google Hotel Finder.
4 Research methodology and data collection

Focus of this chapter is to explain the chosen research methodology, and the data collection and analysis processes. The research method used is within the qualitative approach to research. Additionally, the data collection for the research was done in the form of expert interviews, and the data was analysed by using inductive approach. Also, the earlier research on rate parity is used to give the interview results more validity whilst discussing the key findings.

4.1 Qualitative research

Qualitative approach to research aims to gain an understanding of the nature and existence of attitudes, opinions and interests on a chosen topic. Thus, it tries to find out the motivation of the people rather than measure the exact amounts. (Bradley 2010) The term qualitative research can be defined as an approach to identify what is going on in the world and with the humans (Irvine & Gaffikin 2006, 139). Qualitative research is used to study a small group of people instead of masses. The parameters for the research tend to evolve during it; hence the research is not as structured as quantitative research. (Kumar 2011, 104)

Important characteristic of the qualitative research is the commitment to the unity of all the respondents. In other words the researcher aims to find an agreement between the respondents, regarding the interpretation of situations, experiences and so forth. This characteristic makes it difficult to replicate the results of a qualitative research. In addition, it makes analysing the data very difficult as it cannot be quantified that easily. Moreover in qualitative research the understanding of the data is up to the researcher. (Kumar 2011, 104)

When analysing hotel rate parity in the changing online distribution landscape the expert interviews seemed most relevant to the topic. A significant amount of quantitative research on hotel rate parity and online distribution is available to hospitality professionals. However, the research on industry opinions and experiences about rate parity has been rather limited so far. In addition, the online distribution landscape has been in
turmoil past year due to the previously mentioned court cases and the decision by Scandic and Nordic Choice to drop Expedia.

4.2 Inductive approach

Purpose of the inductive approach in research is to assist frequent themes to rise from the data collected. Sometimes important themes are left uncovered as the deductive approach to research focuses on the existing assumptions. There are three functions for using the inductive approach (Thomas 2003, 2):

1. “Combine varied raw data into brief summary type form
2. Create relationship between research objectives and the findings of data analysis
3. To develop a model or theory of the undetectable processes and ideas that are evident from the data”

The inductive approach is used in this thesis to formulate model on the relationship between meta search and hotel rate parity. The literature review is used to give theoretical background on the existing research and support the created model. Within the inductive approach the recommended data analysis method is inductive coding of the expert interviews.

Inductive coding begins with closely studying the interview material. The purpose is to find recurring categories and underlying themes. It is advisable before the interviews to consider possible themes and categories. Following are the recommended steps for data analysis by inductive coding, except for one minor change in creating the main categories beforehand, in this data analysis process (Thomas 2003,5):

1. Preparation of raw data
2. Close reading of the text
3. Creation of categories
4. Overlapping coding and uncoded text
5. Continuing revision and refinement of category system
In case of this study the terms, categories and coding have very specific meaning. Categories or themes are the key concepts and views on them. Codes on other hand are further ideas and views that individual respondents had on the categories identified. Furthermore, the coding and categories were recognised from the transcribed interviews. All of the interviews were recorded except for one, and the interviews were transcribed within a day from the interview. This way the quality and reliability of the results could be maintained.

4.3 Justification of research methods

As there is no existing theory to be used and the development of meta search, specifically Google Hotel Finder, has not yet reached the maturity stage, the qualitative research with inductive approach was chosen as research methodology. The qualitative methodology focuses on interpreting the data collected. Chosen methodology also tries to explain the phenomena rather than find exact numbers. (Kumar 2011, 8) Therefore, the study was decided to be conducted with industry professionals who have a stake in the discussion on rate parity and online distribution of hotels. In addition, these respondents can be considered as the best individuals to express views on the future of rate parity. Hence, expert interviews were seen the most suitable method of data collection.

The qualitative data can be analysed via two methods – inductive and deductive method. Since deductive approach tries to make a theory to work in practice (Thomas 2003, 2) it was not fitting for the research topic. Rate parity and meta search, not to mention their relationship, has not been studied much and there is no significant theoretical framework on it. Thus, inductive approach was chosen to be used in order to meet the research objective set in the beginning. In addition, the inductive approach is more preferable for the flexible nature of the interviews conducted.
4.4 Data collection

A process of data collection should be carefully planned in order to achieve the needed results. Comparing data from different interviews can be challenging and turn out to be rather problematic. (Brotherton 2008, 131) That is why it is important to have clear records of the process. Following sub-headings try to explain the whole data collection process.

4.4.1 Expert interviews

Expert interview is a semi-structured interview where the focus is on the expertise rather than on the personal qualities of the person interviewed. Important characteristic of expert interview is the range of potential information that is shared during the interview. Interviewer needs to be able to restrict the interview so that it can be conducted in effective manner, and provide proper guidelines during the interview. Evidently, interview can only be successful if the interviewee is knowledgeable on the interview topic. (Flick 2006, 165)

An advantage of a semi-structured expert interview is that there is a degree of flexibility present when conducting the research. An interview situation gives a possibility for a discussion and further questions to rise according to the answers of interviewee, which gives certain degree of depth to interview. (Brotherton 2008, 152) Due to their nature, semi-structured interviews tend to act as the sole information source for the qualitative research. (Jennings 2005, 100)

With the choice of semi-structure interview, this research hopes to narrow the answers to topics which are in relation to the research question. Further questions can be asked according to the answers of informants. This helps to explore point of views further and create a trust between the interviewer and interviewee. In qualitative interviews, interviewer should be reflective of their own subjective opinions and the issues brought up by the informant. This helps to narrow down the subjectivity within the text. (Jennings 2005, 108)
4.4.2 Formulation of questions

Since only one interview structure was created for the research, only one set of questions needed to be formulated. The formulation of the questions was based on the literature reviewed and the purpose and the objective of research. Some of the interviews were done in person, but due to the time differences and scheduling difficulties with some of the respondents, some interviews were conducted via open-ended questionnaire online. Challenge in the interview formulation was to create set of questions that on their own could help to give answers needed in case when additional questions were not allowed.

The interview was divided into ten questions that formed five themes or topics. First topic of the interview was the background of the interviewees. Purpose of this theme was to give an insight and create a profile of the respondents and clarify their reasoning behind their responses. In total, there were three sub background questions. Second theme was defining and understanding the term rate parity. This section contained three questions that helped to understand further the reasoning of respondents and their views on rate parity. Third theme was, the use and customer perception of meta search. It consisted of three questions. Fourth theme was the Google Hotel Finder and its relation to the hotel rate parity. This theme was also formed from three questions. Final theme was made of only one question and it was to determine the direction of the hotel rate parity and the best price guarantees in future of the hotel revenue management. Interview can be found in attachment 2 in this thesis.

The formulation process of the interview structure started from reading through the literature review and finding the key and the occurring themes. From these points, larger set of questions was formed. These questions were combined and narrowed down to form an effective and suitable interview as shown in attachment 2.

4.5 Data collection process

All the candidates for interviews were sent an invitation between 16th April and 2nd of May 2013. The invitation included an introduction to the research topic and interview
questions for the possible respondents to review. The invitation also clarified that all the information is confidential and the exact answers of an individual informant could not be traced back to them. In addition, possible respondents were explained that the interview will be in English, but if needed the interview can also be done in Finnish. Length of the interview was specified not to take longer than one hour and in case of the online questionnaire no longer than 30 minutes. All the possible informants were given the chance to suggest date and time that suited them the best by given deadline. The basic structure of the interview letter can be found as attachment 1.

Some of the candidates were suggested by the thesis supervisors, some of the candidates were already existing contacts and some were suggested by some of the informants interviewed. All in all, ten emails were sent out. Nine of the contacted people gave positive response. Due to the scheduling difficulties, only seven interviews were conducted in the end. One of the emails got at first a negative response due to restricting reasons, but this respondent offered another person to be interviewed. In addition there was no response form one of the contacted possible respondents.

All of the interviews were conducted on the last week of April and during the first two weeks of May. Dates and times of the interviews were agreed by email or by phone. Due to the distance issues some of the interviews were done via phone or online questionnaire instead of face to face interviews. Overall, three of the interviews were done in form of open-ended online questionnaire, three interviews were done face to face and one interview via phone.

4.5.1 Selection of interviewees

Focus of the interview was on the online distribution and digital strategies of hotel companies and online travel agents. Thus, the interviewees were chosen to be people working either on the group level of hotel revenue and distribution management or representatives of online travel agents or industry consultants who could also be working in education. As mentioned earlier, some of the contacts were author’s own, most candidates to be respondents were suggested by the thesis supervisors and one informant was suggested by an another informant.
4.5.2 Profile of interviewees

The first theme of the interview was used to form table 1 below in order to show the background of the informants. In the table, the current position, type of company/institute the informant is employed by and their experience in the revenue management as well as in online distribution of hotel rooms are included. The informants were coded from A to G. This coding is used when discussing the results and helping to indentify individual responses from each other.

<table>
<thead>
<tr>
<th>Respondent</th>
<th>Works in</th>
<th>Position</th>
<th>Years with RM</th>
</tr>
</thead>
<tbody>
<tr>
<td>A</td>
<td>Education/Consultancy</td>
<td>Senior Lecturer</td>
<td>14</td>
</tr>
<tr>
<td>B</td>
<td>Hotel group</td>
<td>Group Director</td>
<td>10</td>
</tr>
<tr>
<td>C</td>
<td>Hotel group</td>
<td>Group Director</td>
<td>14</td>
</tr>
<tr>
<td>D</td>
<td>Hotel group</td>
<td>Vice President</td>
<td>20</td>
</tr>
<tr>
<td>E</td>
<td>Hotel group</td>
<td>Group Director</td>
<td>12</td>
</tr>
<tr>
<td>F</td>
<td>Hotel group</td>
<td>Group level management</td>
<td>7</td>
</tr>
<tr>
<td>G</td>
<td>Education/Consultancy</td>
<td>Managing Director/Coach</td>
<td>~14</td>
</tr>
</tbody>
</table>

Table 1. Respondent profiles (Urpelainen 2013)

4.6 Limitations of the process

The research question of this thesis is universal by the nature as the hotel rate parity is an issue for any hotel in anywhere in the world. Thus, the main limitations of the data collection process are to do with the nature of the research. First of all, four of the respondents were Finnish and act in Finland and two of the respondents act mainly in Middle Eastern markets and one of the respondents act in the Netherlands. For the purpose of the research, it would have been more beneficial to collect data from different markets.
Second limitation is to do with the varied methods of collecting data. As mentioned earlier, the expert-interviews were chosen as the method due to their in-depth nature. But since it was easier to organise an online questionnaire with open-ended answers for the three respondents outside of Finland, not all of the respondents were interviewed face to face. Additionally, one of the respondents was interviewed via phone, which made it not viable to record the interview. Therefore, there are differences within the quality and depth of the responses.

Third limitation was that the face-to-face interviews should have been done before the online questionnaires. It could have been easy to add additional questions, according to the themes brought up in the interviews, to the online questionnaire. That way, more validity and reliability could have been added to the responses and the needed depth of responses across the board would have been possible to achieve.
5 Results and findings of the interviews

The respondents of the interviews were all interviewed as individuals with knowledge on the topic. However, in all the interviews the point of view of the company respondents presented could be heard. As discussed earlier most participants were directors and managers in hotel chains working with either the revenue management or the digital marketing strategies. See the table in sub-heading 5.3.2 for the profiles of respondents. All the respondents had at least seven years’ of experience on the topic.

The results are analysed by the themes set in the interview formulation part of the data collection process. As mentioned previously, the key themes and concepts of this thesis work are rate parity, meta search and Google Hotel Finder. By keeping the same structure, it is easy to keep the key themes in order and find new and frequent categories within the responses. Aim of this particular chapter is to create background for an insightful model for the future use of rate parity. First the view on advantages and disadvantages are discussed and little by little the participants’ point of views on the future of rate parity is presented to the reader.

Furthermore, data collected with the aim to create a new model tends to have widely ranging responses and be rather voluminous. Therefore, Brotherton (2008, 208) suggests that some of the data should be transformed into quantified form. This helps to detect frequencies in the answers and give guidelines for building and presenting a new model. For some of the questions, the answers were quantified just for this reason. For example, questions on advantages and disadvantages of rate parity can be best analysed when the frequencies are detected.

5.1 Point of views on rate parity

All of the respondents were more than familiar with the term rate parity. There was a mutual understanding of the term. Common definition for the term was having similar rates across all the possible channels. As a general rule, all the respondents underlined having the same rate across all channels as the focal point in the definition.
However, some of the respondents had more to add to the given definition. Respondent A defined the term as: “Displaying the same rate across all channels regardless of the costs”. Clearly putting focus also on the commission costs related to the topic. Respondents D and G approached the questions through explaining the history of rate parity. Interestingly enough, respondent D emphasized that rate parity was created to serve the globalizing and unifying markets. At the same time, respondent G looked rate parity as OTAs’ way to take over hotel capacity due to the old-fashioned way hoteliers operate.

Common concern with respondents was the OTAs’ power in pricing of the hotel rooms. It seems that the hoteliers are really trying to find options to shift power completely back to hotels, but there are obstacles such as commissions on the way. Respondent B brought up the best price guarantee as an answer for shifting the power.

5.1.1 Advantages of rate parity

As mentioned earlier, advantages of rate parity are best discussed in quantified form. Below figure 1, response frequency on the themes that were categorised by using the interview material.

![Advantages of Rate Parity](image)

Figure 1. Response frequency on the advantages of rate parity (Urpelainen 2013)

As the figure 1 shows, the advantages recognised by the hoteliers come down to four rather simple categories. Most popular advantages within the respondents were that the
rate parity is easy for customers and that rate parity is fair on all three parties concerned: customers, OTAs and hotels. However, there was no theme that was recognised by all of the respondents. All of the respondents discussed about either the category of easiness or the category of the fairness. Respondents A, C and F discussed about both: easiness and fairness of rate parity. These results clearly point towards an idea of that the hoteliers are in agreement on what kind of advantages there exist, but do not necessarily agree whether these advantages are all that important.

In addition, the responses do not show any pattern between the responses of international and nordic or hotel and consultancy interviewees. A and G who are the two working in education/consultancy discussed about customer easiness. One of them said: “Main benefit is for the customer, who does not have to search for best rate.” Possibly their role, as someone that gives information and new ideas, makes them also to consider customer more than the hoteliers. Furthermore, respondents B and F discussed about how the consistency benefits evaluation of performance and moving the bookings to brand.com. As shown in the table 1, respondents B and F have been working the shortest time with hotel revenue management. There could be generation issue to consider.

5.1.2 Disadvantages of rate parity

When the hoteliers were asked about the disadvantages of rate parity, all responses identified the main disadvantage to be the difficulty of managing the rate parity. However, there was a variance in how the respondents understand managing of the rate parity. For example, the respondent C explained it: “No ability to price sensitize across varying markets with varying degrees of market penetration”. The concern with managing rate parity according to C is that the hotels cannot penetrate certain markets as they have to follow agreed rate parity and all markets book through the same online channels, the same rates regardless of costs. Only way to penetrate the market is through contracted group, wholesale and corporate rates.

Alternatively, some of the respondents brought up the issue of who is managing the rates. Respondent G indicated that OTAs are just enjoying the rate parity, when at the
same time hotels have to do all the hard work with managing the rate. Nearly all of the respondents were concerned about the commissions and how these might increase in near future for the hotels. Similarly vulnerability of the process for hotel companies to manage rate parity was brought up by respondents A, F, E and B. The main concern was about the OTAs extranets and how not everyone uses central reservation system or other supporting system that helps to manage rates across all channels easily. Of the all the possible OTAs, Booking.com was pointed out to create lot of difficulties for the hotels. According to a couple of the respondents Booking.com is well known for being difficult in selling the room on a rate by daily rate rather than the rate by the length of stay.

5.2 Meta search and hotel rate parity

Respondents viewed the meta search and its relation to rate parity convenient to customers. Customers were seen by all of the respondents as beneficiaries of the transparency provided by the meta search engines. In addition, respondent F felt that the hotels and OTAs gain valuable information through the rate transparency. Respondent G replied that the hotels can improve their image by having the transparent rates available. Thus, the customer perception is in an important role and the respondents seem to recognise it. Respondent B thought that the meta search has affected rate parity especially with the faster customer decision making process: “As they can save time in making the rate availability searches”. At the same time respondent D did say: “I would be surprised if customers did not use meta search”. Thus, effect of the meta search rate parity can be though to be mostly related to the customers and their actions.

Ideas on transparency supported the discussion on the advantages of rate parity. Respondents F, E, B, G and A mentioned easiness and fairness when discussing about the transparency of meta search engines. These were also the most commonly agreed advantages of the rate parity. However, respondent C felt that there is an overflow of information to the customers as well as noticeable amount of issues to take into a consideration from both, hotel and OTA side. Furthermore, respondents said that the increased customer knowledge risks the business for both hotels and OTAs. The
thoughts, on the risks and on the issues for the hotels and the OTAs, were not taken any further during the interviews, only mentioned on brief.

Moreover, some of the respondents saw the meta search as a nuisance to the hotel revenue managers. Respondent D said” Revenue managers see that they can make more revenue out of the market, but since the rates are available online, they might not get what they want to and can get”. Clearly there is a concern that the market is not doing its job, since respondent C already mentioned the same market penetration issue whilst discussing the disadvantages of rate parity. When the pricing cannot be done according to the needs of a market, both hotels and OTAs should be worried if they are getting the correct revenues and customer volumes.

Some of the respondents raised an important question for the hotel revenue managers to consider: “If the rate parity works, why do we need to have the meta search?” The meaning and solutions for this question will be discussed in the next chapter in relation to the literature review. When it comes down to how the customer perception on pricing has changed with the meta search, the replies divide into two groups: negative and positive changes. Figure 2. shows how the answers divide.

![Change in customer perception](image)

Figure 2. Division of views on the nature of change in customer perception on pricing (Urpelainen 2013)

Of all the seven interviews, four of the responses indicated positive change and three responses negative change. Supporters of positive change based their replies on the
idea that the customers have understood the brand.com to have the same rate as other channels and quite often with better terms. In addition, the customer choice of preferred channel and terms was brought up. Respondents that supported meta search to have had a positive change thought that in the end hotels need to understand that the customer chooses what suits them best, and the different options are given very easily by the meta search engines. Overall the thoughts were that the customers have begun to understand the pricing structure the hotels have online, as well as realise the difference between the different options.

On the other hand, the respondents, who proposed a negative change in customer perception on pricing, were concerned about how the customers view the unavoidable price discrepancies. They also wondered if customer learns to understand where the price comes from. The transparency of rates was seen to be confusing for the customers, especially when there can be really small differences due to exchange rate or rate setups. In addition, respondent C proposed that the price conscious customers might become less loyal and only follow the price when all the options are easily available for the customers.

![Is rate parity losing its trustworthiness?](image)

Figure 3. Respondent replies on the trustworthiness of rate parity (Urpelainen 2013)

Interestingly, when discussing about the trustworthiness of the rate parity, the responses of interviewees contradicted earlier replies on customer perception. The
division of replies is presented in figure 3. Most of the respondents (71%) felt that the rate parity is indeed losing its trustworthiness. However, when the change in customer perception was discussed, the more popular view thought that there has been positive change. The rate parity was thought to be losing its trustworthiness since it is has not been able to evolve and therefore it cannot be no longer to be applied correctly.

Moreover, those respondents who thought that the rate parity is not losing the trustworthiness thought so for different reasons. Respondent B saw that the global hotel chains do not need to worry about the trustworthiness, possibly since these chains have the systems and resources to manage rate parity effectively. On the other hand, respondent E thought that the rate parity is great for the customers and not having it might be more decremental. In the end, it was still thought that the rate parity needs to evolve and change. However, the feeling was that since the customers can keep the rate parity mostly under the control there is no need to get free of it.

The customer perception has been one of the driving forces behind rate parity. It has been a reason for the need to combine many markets into one in order to offer the customer easy rate across channels. Respondent F and G pointed out that the customers do not see the difference between the hotel direct booking channel and OTA channel. Since the customers do not see the difference between hotel and OTA, the trustworthiness of the rate parity is questioned. However, the customer perception might still have positive effect as the customers are not concerned with who is selling the rate.

Subsequently, the view within hoteliers seems to be that customers can accept differently valued rates across channels. Respondents A, C, D, E and G all agreed that with clear differentiation and highlighting the added value, customers could accept different rates for same room night across different booking channels. Mutual thoughts about differentiation were summarised by respondent D: “It all comes down to the value. This is the time to show what the rate is about”. The choice is with the customer, but the respondents seem convinced on communicating the customers that the terms are best with the hotels. Nevertheless, respondents B and F were undecided,
but agreed with rest of the respondents that clarity and well valued differentiation are needed if there is no longer rate parity.

It is worth noting that about half of the respondents brought up the new owners of meta search engines Kayak and Trivago. Those who touched on the topic thought that Expedia and Priceline are trying to enhance their role in online distribution and guide the traffic to their own websites. The ownership of meta search was seen natural move and somewhat response to Google Hotel Finder.

5.3 Entrance of Google Hotel Finder

When the questions turned towards Google Hotel Finder, the responses started to vary respondent by respondent. In general, it was thought that Google has not yet decided on the direction they wish to pursue with the Google Hotel Finder. Respondents A, C and G thought that Google Hotel Finder will become a major player or a gatekeeper. Respondent A expressed their view: “With the strong name and presence of Google, it will not take long before it [Google Hotel Finder] will be a major player”.

Other ideas about the possible role of Google Hotel Finder included OTA, marketing channel and classical meta search engine. Clearly, there are as many opinions as there are people working with the hotel revenue management. Moreover, in some interviews the concern on what happens if Google starts to package their products was discussed. Most of the respondents did not show any concern regarding packaging, but respondent C proposed: “All depends on their [Google] intentions with Flight Finder. If they package products, it [Google Hotel Finder] will become significant market force.” The main concern is that with packaging Google can really sell the whole holiday to transient customer with an ease never seen before, since Google has vast collection of data from customers and the companies they are working with.

When interviewees were asked about what kind of changes can be expected in the customer actions while searching hotel rooms, answers varied significantly. Two of the respondents saw no changes and respondent D thought that there will be only changes if Google can provide customer with relevant search results. In other words, if Google
can know what the customer is looking for and by using its digital marketing tools to emphasize its own travel products. Conversely respondent B thought that Google Hotel Finder will become first stop and customer will choose the hotel and channel via the tool, but Google is not likely to take over the whole customer experience. Respondents E and G had similar thoughts with respondent B. Moreover, respondent G was convinced that especially the linkage to Google Places will make Google Hotel Finder to dominate in online distribution, once fully taken into use. Specifically, the importance of location will increase again, thus taking the online distribution back to the basics: “Location, location and location”.

In general, the view of the respondents was that there will be no major changes to the pricing and revenue management strategies. Most of the hoteliers thought that it is hard to see what changes could happen in pricing strategies as Google Hotel Finder starts to take its place. From all of the respondents E and F replied that only the time will show, since Google has not yet come clear with the plans for Google Hotel Finder. Some respondents thought that the possible changes in pricing strategies will not be due to Google Hotel Finder and entrance of other big online players. The changes will be more due to the court cases in the USA and UK on the rate parity and relationship between hotels and OTAs. Respondent A was somewhat hopeful with Google Hotel Finder as he said: “Possibly restore the pricing power to where it belongs, which is at the hotel site”. Respondent C felt that only changes will be with monitoring the prices and adjusting strategies through the monitoring.

All in all, the thoughts about Google Hotel Finder were still new and not completely thought through with all the interview respondents. Half of the respondents seemed to be following the situation from far back and ready to react when needed. Other half had some ideas already what could happen and what the role of Google Hotel Finder will be. For example, respondent G suggested that hotels could be rated with something similar to traffic lighting according to price, availability or recommendations. If this was to happen, it is definitely something that hotels need to react to.
5.4 Future of rate parity

A mutual understanding between all of the respondents was that the rate parity needs to evolve further. In addition, thoughts were that the rate parity has come to its end, as we know it. Four of the respondents felt that the rate parity will disappear. Respondent A felt that rate parity has become one form of price-fixing, which is of course unhealthy for any business and competition. However, respondent A also thought that the OTAs will maintain their power, which means that the hotels should invest more on their relationship with the OTAs. Respondent F supported A’s thoughts by saying: “After the court cases rate parity will be gone or changed”. However, respondent F was indifferent to A by thinking that the hoteliers should think carefully about their partners, as Scandic and Choice hotels have left Expedia in Nordic markets and therefore making a clear statement for rest of the industry to follow.

Respondents C and E agreed that rate parity will not be in the center of discussions much longer. At the same time, they thought that the rate parity will not disappear completely. According to respondent C, the theoretical rate parity and best price guarantee cannot be implemented successfully since the e-commerce is in too small of a role in hotel industry. Main point being, that indeed the OTAs are some of the best actors in e-commerce and they have been able to use the skill and understanding to their advantage. To achieve the total rate parity, the focus of hotels needs to be with e-commerce and digital marketing. Respondent E added to C’s thoughts that the “rate parity and best price guarantees need to evolve, but their importance to the business is so vast that they cannot disappear completely. The power needs to be shifted back to hotels”.

Naturally, some suggestions to replace the rate parity and best price guarantee were given. Two of the respondents thought that best price guarantee will become something like best value guarantee and individual travelers from certain market are offered automatically the rate most suitable for them. Respondent A thought that hotels should put effort into relationship with the OTAs rather than try to maintain rates.
5.5 Summary of key findings

Overall, the respondents had very similar views on all of the topics. All respondents agreed on the definition of rate parity and that the meta search is indeed beneficial for the customers. Also respondents had very similar view on the future of the rate parity. The interview results suggest that the rate parity is becoming obsolete, especially as we know it today. The industry feel is divided between those who see that rate parity will disappear within next couple of year, and those who see it changing, but not disappearing.

There were recurring themes regarding the advantage of rate parity. All of the respondents answered either of the main themes: customer easiness or fairness. The disadvantage of rate parity was the only question where all of the respondents agreed. There were different views on how the control has been lost, but they all agree that hotels have hard time managing rates.

All in all, the main finding from meta search theme was the question regarding why meta search exists. Mostly the respondents agreed that customer perception has been changed positively, but at the same time rate parity is losing its trustworthiness. Interestingly, the same respondents who thought that rate parity is not losing its trustworthiness also thought that rate parity will not disappear completely or change that drastically. This indicates that there exists a little bit different set of mind.

All in all, respondents felt that Google Hotel Finder will be somewhat major player. However, Google Hotel Finder was not seen as threat or as opportunity. Mainly because Google has not yet communicated their plans and partially because it was seen just as another meta search. There was concern regarding costs and customer traffic if it was to become similar to OTAs.
6 Discussion on findings

Since the purpose of this thesis research was to establish whether the rate parity is becoming obsolete as well as create and offer something new for the hotel revenue management operations, the key findings need to be discussed further. In addition, the possible results to the research question are further explored in order to recognise patterns and ideas on how the meta search has affected the rate parity. Through these steps, an insightful model of rate parity and meta search has been created in order to explain the relationship between the two as well as give guidance for the future.

6.1 Key concepts

The key concepts covered in the interviews were the three key concepts of this thesis work – rate parity, meta search and Google Hotel Finder. The respondents agreed on the terminology associated with the key concepts. As, expected the responses on the rate parity were more unified than the views on Google Hotel Finder. Rate parity has been around quite awhile and was a familiar term to all of the respondents, unlike Google Hotel Finder. This is thought to be due to the fact that Google Hotel Finder is still in its beta version. In addition, the hotel rate parity is discussed almost weekly in the hospitality news due to the court cases, and for example Nordic hotel chains leaving Expedia.com. However, there was no differentiation between the different markets the interviewees operated in.

When the interview findings are compared to the original definitions, certain assumptions can be generated. The original definition of the hotel rate parity by Toh et al. (2011a, 183) and Gazzoli et al. (2008, 376) seems to match with the one combined from the interview responses. However, the ideology behind the rate parity in practice seems to have some minor differences. The literature review is more concerned with the costs and transparency, whilst the respondents were concerned about the loss of control. Naturally, the issue of high commission was brought up in all interviews, but hoteliers did not like the fact that they are no longer fully in control of hotel room pricing.
Even though the earlier presented motivation behind the meta search is supported by the interview responses, there is some clashing opinions. To begin with, the respondents saw that the meta search has had positive change to the customer perception on pricing of the hotel rooms. At the same time, they thought that the rate parity is losing its trustworthiness. The previous views according to the literature review on the meta search have been that it helps customers to find a best suitable rate for each individual customer, but it also makes it confusing for the customers if the rates are not consistent. (O’Connor 2003, 91) Now that Priceline and Expedia have a stake in the two biggest meta search engines (Edleson 2013), a question rises on who has the pricing power and are the customers getting the best possible rate.

Moreover, this is also where the court cases on price fixing are trying to find answers. Court cases were recurring topic from interview to interview and most of the respondents were waiting for the results of these court cases. From the interview results, it can be understood that changes will happen soon and the rules will change once the court cases have been handled. It seems that the common view within the industry is that the customers and the court cases will have much more significant impact on the hotel rate parity, instead of the studied Google Hotel Finder. Another recurring topic in the answers was that, what is good for the customers is bad for the hotels. The reasoning for having meta search seems to trouble the respondents as one of the respondents said: “why is there meta search if rate parity works?” Toh et al.’s (2011a, 183) original thought about rate parity being theoretical and not practical is matching with the respondents ideas.

In the interviews, the customer perception was in important role in both questions and answers. Hotel industry is a service industry and so the customer is in the centre of any operation. During the interviews, three respondents expressed their wishes for future of the rate parity, but concluded their answer with, that in the end everything is up to what the customer wants and chooses. In addition, all the respondents agreed that the online pricing should be fair for customers, fair for partners and fair for hotels. For the time being, the industry view is that it is not completely happening: Customers question the pricing, hotels feel that they have lost pricing power and OTAs are struggling
with the annoyed hoteliers and decreasing growth of online transaction volume. However, Gazzoli et al. (2010, 376) presented that the customers are getting more educated and therefore are likely to choose the hotel direct over an OTA. Obviously, this is clashing with the interview results.

6.2 Relationship between rate parity and meta search engines

Discussion on the meta search in the literature review indicated that the meta search has had both negative and positive effect on the rate parity. Meta search helps the customers to see that the rates are mainly the same with small differences. In addition, the meta search helps the hotels and the OTAs to gain important market intelligence. (Estis-Green et al. 2012, 6) Not to mention how the meta search helps the customer to find the right channel for their specific needs. (Tranter et al. 2008, 106) All of the interviewees emphasized that the choice is with the customer, but naturally hotels should be able within their resources to make brand.com a preferred choice. On other hand, this might be the case with the chain hotels, but as respondent F said during interview the individual hotels are different case.

As the research results propose, the customers are starting to understand the online pricing. The change on customer perception has been positive, at least according to the most of the respondents. During the interviews, it was proposed that a knowledgeable customer realises where the prices come from and that there exists a commission structure. However, there is no indication from the interviews that the customers would understand the amount paid in commissions or why should they book through brand.com. Moreover as customers get more educated they could see that the rate parity does not fully work.

Additionally, it needs to be figured out why the meta search was born, if the rate parity is indeed thought to be effective. This is a very contradicting issue and, as mentioned, leads back the Toh et al.’s (2011a, 183) idea of theoretical rate parity. Especially respondent F supported this way of thinking. Meta search is also thought to bring more focus to the issues with the price-fixing and the court cases. Somehow, it can be read between lines that the industry is wondering can they say no to the OTAs and stop
pleasing them and figure out new ways to please customers, especially when the hotels are seen to lose in e-commerce to the OTAs. Hoteliers should ask themselves that, is there indeed a need for more business focus over the traditional service focus.

Furthermore, if the hotels wish to shift the pricing power back to the hotels, solutions to how to differentiate rates effectively needs to be found. It can be proposed that the customers are able to accept different rates across different channels. In order for this to happen, hotels need to make it clear with the value additions and the differentiation of products. Typical value adding features, like the view, bathroom size or amenities, are not enough for the clear and effective differentiation. As respondent G said in the interview “Hotels need to find new ideas and go crazy”. According to the key findings, not having rate parity comes down to the effective differentiation and clarity of different products. In this case, it is still good to remember, that Peter O’Connor (2001, 70) found out that the customers get confused with many different rates available. Though, it must be realised that this view was rather long time ago when discussing about online distribution. In addition, Baker’s (2011, 76-77) ideas on that any product or service can be sold at any price as long as the value is created successfully is something that hoteliers should consider carefully.

Even though the meta search has helped hotels to gain market intelligence, the changes in the ownership of meta search and Google Hotel Finder’s deal with booking.com as preferred channel casts a shadow over the purpose of meta search. The interviews that touched on the ownership of meta search, there existed a concern about what the ownership of meta search engines will do to meta search is evident. So far, it seems that the customers are not yet recognising the difference between an organic and a sponsored search (Marce 2013, 6). The sponsored search could easily increase its role in meta search, and indeed the rate parity could be losing its trustworthiness somewhat due to the meta search just like the respondents thought.

6.2.1 Google Hotel Finder and rate parity

Most of the respondents saw no specific effect that Google could have on rate parity. However, some important points can be drawn from the interview results. First of all,
there were various views on what Google wishes to pursue with Google Hotel Finder. For example, if Google will pursue with the meta search then Google Hotel Finder will have similar effect on rate parity as any other meta search engine. On the other hand, if the direction is to enhance customer experience and give customers straight away the hotel product they are looking for, then Google Hotel Finder will be taking much bigger role than the normal meta search. They could be taking over the whole customer experience. Especially, this is seems to be the case if Google manages to combine Flight Finder with the Hotel Finder.

In addition, Google can be expected to become the point of entry for the hotel bookings. However, this is only if Google manages to really focus the search engine marketing and optimization so that the customers are immediately offered what they need and want. The final role of Google Hotel Finder is still in blur and all the opinions are guesses of individuals. There is a concern towards the tool, but at the same time it is questioned whether Google really wants to take an important role or if they prefer to just take their share on customer experience. Overall, the views of respondents are going to same direction with thoughts that Marcec (2013) had.

6.2.2 Future use of rate parity

Common view on the future of rate parity is that it will disappear. Or at least take a very minor role in online distribution of hotel rooms. Currently, the original purpose of rate parity seems to be lost or at least slowly disappearing. There are many options to find price discrepancies, customers are getting concerned and hotels once again are not happy with the commissions they are paying to OTAs. Therefore, many of the respondents felt that a need for the rate parity does no longer exist. An example of slowly disappearing need can be found from the Nordic hotel markets as discussed in the literature review. Of course when there is no need for something, changes are expected.

Even though Toh et al. (2011a, 183) did agree on the theoretical nature of rate parity, the conceptual framework shows that this is not the case with all experts. According to the literature review, number of experts does believe in practical rate parity. For exam-
ple, the benefit to customer is thought to be significant enough to continue with rate parity (Gazzoli et al. 2010, 376). Time will show what will happen, but according to the people working day-to-day with revenue management and rate parity, changes are needed.

6.3  Theoretical model build from the interviews

The figure 4 is the model formulated from the key findings. The model is expected to give guidance to the professionals working with the online distribution of hotel rooms and decision related to the hotel rate parity. Furthermore, the model helps to see the relationship between meta search and rate parity by showing the role of customer, hotel and OTA. Therefore, the model is giving possible solutions and direction to the hotel revenue management. It shows the effect of meta search to rate parity and how rate parity will evolve.

![Figure 4. Model for development of rate parity (Urpelainen 2013)](image)

According to the results there are three stakeholders when it comes to the rate parity and the meta search. These are illustrated in the figure 4 just below the meta search. The relationship between rate parity and meta search is explained through the three parties and how what type of relationship they have with the meta search and rate par-
ity. First of all from the customer’s point of view, the meta search has had a positive impact on the rate parity. However, the customers are getting concerned with price fixing, but since there is no precedent case or study, it is hard to consider having a significant role. Secondly, the hotels are not winning through meta search due to the customer perception and a major OTA ownership on Trivago and Kayak. As said OTAs’ own the meta search engines and customers buying the cheapest available rate and choosing the best terms, has left the more service oriented hoteliers irremediably behind.

Even though the OTA and rate parity relationship in meta search was not that much discussed, it was clear that OTAs gain market intelligence and can put their products even better available for the customers. However, the customers are becoming smarter and do not choose the OTA as easily as before. Additionally OTAs, and of course the hotels, should question whether the rates actually are as high or low as they could be in certain markets. This means that the relationship additionally has negative effect on rate parity.

Despite the customers’ important role, the negative relationship from the point of view of hotels and partially through the OTAs needs to be considered. After all in order for the hotels to exist they need to make revenues, but if the commissions keep rising, OTAs taking the whole control of meta search and customers are becoming more eager to find the cheapest rate, changes to rate parity need to happen. Therefore, rate parity needs to evolve towards value differentiation according to the respondents of this research. Suggested actions are to develop the best price guarantees further to become best value guarantee, and start to differentiate the rates for hotel night across different channels.

However, as mentioned, this model is very first attempt to map the changes happening. There are no certain answers yet and this model is just to start more open discussion on the topics discussed in this thesis research. Further research is much needed and suggested. Ideas and suggestion for further research is discussed in the following chapter seven.
7 Conclusion and Limitations

This research suggests that the meta search of the hotel rooms has had an effect on the hotel rate parity. Customer perception has improved, but at the same time the availability of different rates has made the customers increasingly more price-conscious. Unlike expected, the role of Google Hotel Finder is noticeably smaller than what was originally expected. This might be due to the fact that Google is still using the beta version of Google Hotel Finder, and, in addition, there has not yet been clear communication from Google regarding the role that they wish to pursue with Google Hotel Finder.

Furthermore, the meta search has had both positive and negative impact on the rate parity. Results of the research suggested that the customer is still in important role. The results imply that the customer perception on pricing and rate parity is changing to a more positive direction. From there on, an assumption can be made, that the positive change in customer perception of pricing will and has directed the customers more towards brand.com. However, at the same time hotels have been negatively affected by the meta search, since the ownership of meta search is not with hotels, but with OTAs. In addition the price discrepancies have become increasingly more obvious to the customers. Which hurts the relationship between the hotels and the meta search.

Moving forward, the purpose of this research was to find out whether the rate parity is becoming obsolete. We can propose, according to the interview results that the rate parity will disappear within few years. Industry views seem to be that there is no need to have rate parity anymore. Or at least in the way we know the term rate parity. Currently, the rate parity is getting a negative publicity via the price fixing related court cases. Incidents, such as the court cases, can bring guidance to the hoteliers in what is the next step for the hotel rate parity going to be. Furthermore, the ideas given by the interviewees were made into a model that shows possible new way of selling rooms online, and steps to take within next couple of years. However all this comes down to the fact that hoteliers are still lagging behind OTAs in e-commerce and business mindedness. The power of OTAs should be strong enough proof for the hoteliers to reconsider their choices and maybe think outside of the hotelier box.
Aim of this research was to start a discussion on how the hotel revenue management through the online channels could be developed further. None of the respondents could talk about all of the themes fully together and seemed to lack some idea where to develop online distribution especially with Google Hotel Finder. It can be expected that the model created helps this discussion, but the changes are happening rapidly in the hotel room online distribution, and therefore require immediate reaction. In addition, as the theoretical work on hotel rate parity is non-existent, the model created is just a first attempt to give the topic different form and a general structure.

All in all, the nature of meta search is changing, and thus it should be questioned why to have rate parity when the purpose of meta search is to show the price differences. The model created in this thesis proposes that hoteliers should focus more on the differentiation of products and the value given to the customers. As Baker (2008, 76-77) has said anything can be sold at any price when the value is right for the right customer.

7.1 Validity and reliability

When using the qualitative research methods, especially expert-interviews, it requires consistency and understanding of all the things that can go wrong. The interviews need to be analysed carefully. Additionally it is highly important to recognise the situations where the person and where the company they represent are speaking. The qualitative data is open for subjectivity, since the questions can easily become subjective to the interviewer’s own point of view. Seldom can the interviewer keep ones opinions completely out of the data collection and analysis process.

During the research, it was essential to keep focus on the themes studied and try to guide the respondents to the needed direction without affecting their opinions. Naturally, the position, experience and company of the respondents have an effect on the answers of an individual. Thus, during the analysis process, the company view needed to be clearly differentiated from respondent’s own view. Furthermore, all the three key themes: rate parity, meta search and Google Hotel Finder, are hot topics within hotel
industry. Hence, some very strong opinions and views could rise within the interview. Strong feelings on the topic limit the validity of the answers, therefore, how the questions should be asked and how much the interviewer could provoke the interviewee, needed to be carefully planned and executed.

Within the period that this thesis work has been conducted, Expedia bought Trivago and new court cases arise in Europe regarding the price-fixing. In addition, the discussion around Scandic, as well as Nordic Choice hotels discontinuing their contract with Expedia, kept going on. Thus it required a significant amount of time just to follow the news and blogs to keep up with the general industry atmosphere. On other hand, the topic needed to be narrowed down throughout the thesis process, as with these changes, there is much more to include in the research and the literature review. However, these additions would have expanded the thesis work and the results might not have been as well analysed.

In addition this research considers the topic of rate parity and meta search mainly from the hotel point of view. If online travel agencies were interviewed, they could have had an opinion on the topic that might have led to altered conclusions. Two invitations were sent to the representatives of OTAs, but either one of them wished to take part in an interview or responded on time. In fact the thesis topic is very sensitive to OTAs at the moment. Since the main focus was to look at the topic from hotel point of view, OTAs might have felt that their answers will be used in a negative way. However, opinion from online actor could have given more validity and new issues to discuss.

Moreover, not all of the interviews were conducted face-to-face. For the three respondents who answered via online questionnaire, additional questions could not be asked. These three respondents were the first ones to be “interviewed”. Maybe having the online questionnaires after the other interviews some additional questions could have been added according to what had come up in the interviews. Furthermore, the responses from the interviews seemed to go around same themes and topics from question to question. Perhaps, the current nature of the topic kept the respondents talking about same issues in all answers, or maybe the positioning of the questions was not
done well enough. However, when analysing data it was rather hard to recognise all the changes.

7.2 **Recommendations for revenue management professionals**

As concluded from the results of the interview, there are mutual opinions with variations of ideas on what changes and how the changes will happen. There is a desperate need for more open discussion on rate parity, and what direction it should develop as there seems to be industry wide view that rate parity will disappear with time.

It seems that majority of the respondents are waiting something to happen. Many changes are currently going on in the online distribution and purposefully hoteliers want to step back and see what will happen. However, the OTAs have been better in the online distribution game, and waiting to see what will happen, gives room for OTAs to act. Therefore, revenue management professionals should review their brand.com booking systems, especially the easiness of the booking channel, and go through the existing OTA channels they use. See if something has changed and if there is something that can be done differently. Through updated strategies, hotel revenue managers could shift pricing power back to them and develop rate parity to new form.

7.3 **Suggestions for future and further research**

Before starting the research process, it was clear that the topic is particularly current and there is not much research or theoretical background done with the topic. Thus, it is essential to have further research. Especially rate parity’s role in hotel revenue management needs to be studied further. During the process the industry view and actions have been changing constantly. Sometimes, it was hard to stay on the topic of the thesis as there was so much going on that could contribute and take this research further.

Importantly, this thesis work is lacking the point of view of OTAs. Some of the respondents mentioned during the interview that current issues with price fixing come down to the relationship between hotels and OTAs. Thus, having two or three respondents from OTAs could have helped to recognise where the different mind-set
exists. By further research, some suggestions on how to improve the relationship could be drawn and some of the key problems tackled little bit easier. In addition, the OTA point of view on some of the themes studied can be thought to be different from the respondents for this research.

Maybe in the near future, someone can study the effects of dropping Expedia from the online distribution of certain hotel chain. The choice done by Scandic and Nordic Choice hotels is drastic and one of a kind. Rest of the hoteliers, especially the revenue and online distribution specialists, follow the events carefully and look for signs on whether the other hotels should follow. This topic should be also studied from customer point of view. From one of the interviews, it was said that customers prefer the OTAs, because the pages are easy to use and there are many options available. Thus, studying how customers feel about OTAs and do the customers understand the difference between brand.com and OTA could provide interesting insight for hotels and revenue management professionals.

Finally, in this research the independent hotels are talked briefly in relation to the research topic. However, it is the larger hotel chains that dictate the rules and the future of rate parity. Often the independent hotels do not have any other option than selling through the OTAs, as they do not have the needed resources or systems to have their own booking channel. Maybe research on the independent hotels and how not having the rate parity will affect them, could give more to the topic and guide for these small hotels.

7.4 Learning process

In order to evaluate the author’s learning process it is good to follow the actual research process. The research begun with choosing the topic and narrowing it down, second step was to get familiar with the topic and build the conceptual review, third step was the research and lastly conclusions on the key findings were drawn.

Initially, the author found the topic of this thesis research during here internship in Dubai with Jumeirah Hotels and Resorts group revenue management. The author
wished to use Google Hotel Finder due to its current nature, since Google is a major online actor and therefore, Google Hotel Finder can be a significant threat or an important opportunity for hotel room online distribution. From there the research topic, question, purpose and objective were narrowed down to the relationship of rate parity and meta search, as well as to the future of rate parity.

Next, the conceptual framework in form of literature review was completed. Process begun with reading through various sources, following online blogs and news, as well as, reading through course book material in order to establish clear understanding on the topic. To ensure the quality of the conceptual framework sources were collected from reliable academic journals, books and online sources. Since there is a lack of research and specifically lack of theoretical framework, some of the literature was not as recent as the research topic required. Also many of the current sources relied on the studies done by Peter O’Connor in the beginning of the 2000’s.

The form of data collection was suggested by the thesis supervisors. However the chosen approach to data analysis was author’s own choice. Inductive approach was seen to be most relevant, since the objective was to create an insightful model from the data collected. Conducting the interviews significantly improved the interview skills of the author. Most noticeable learning happened during the data analysis. Process of analysing the data was long and took lot of concentration, as there was a chance of high subjectivity on the results. Lastly, the author needed to apply, the data collected, in timely and professional manner to draw conclusions. Conclusions combine the conceptual framework and the key findings of the research. This was challenging process which at the end seems to be rewarding. The quality and validity of the research is consistent and insightful as well as comprehensive.
References


Attachment 1: Interview invitation

Hei [vastaanottaja]


Haastattelun ajankohta ja paikka voidaan järjestää toiveidesi mukaan. Kaikki haastattelumateriaali käsittelään luottamuksellisesti koko tutkimuksen ajan.

Odotan innolla vastaustanne 26.4.2013 mennessä. Kiitos mielenkiinnostanne!

Ystävällisin terveisin,

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Attachment 2: Interview questions

Else Urpelainen Thesis Interview

1. Background of interviewee
   - What company do you work for?
   - How long have you been working with hotel room revenue management/online distribution?
   - What is your title?

2. What is hotel rate parity? How does it work?

3. What are the benefits/drawbacks of hotel rate parity?

4. How increased availability of different meta search engines has affected hotel rate parity?

5. How do you think customer perception on pricing changed with meta search? Is rate parity losing its trustworthiness?

6. Could today’s customers accept different rates if the value varies according to the rate across diverse online distribution channels?

7. What type of a role will Google Hotel Finder take in online distribution of hotel rooms?

8. How do you think customer actions while searching for hotel will change with the ready available hotel rates in organic Google search?

9. What type of changes Google Hotel Finder could have on current pricing strategies related to rate parity?

10. With increasing number of meta search and entry of big online companies to the online distribution, where do you think rate parity and best price guarantees are heading to?