

Student Name: Muhammad Irfan

Student ID: DE240124

Operations Management in Hospitality

Assignment 15

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Identify and Explain the Main Factors that Influence a Company's Choice of Distribution Channels

Distribution channels refer to the path through which a product or service moves from the producer to the final customer. In the hospitality industry, distribution channels may include direct booking (hotel website, walk-in customers), travel agents, online travel agencies (OTAs), tour operators, and global distribution systems (GDS). Choosing the right distribution channel is crucial because it affects sales volume, customer satisfaction, brand image, and profitability.

Several key factors influence a company's choice of distribution channels, including customer characteristics, product nature, company resources, and market conditions.

1. Customer Characteristics

Customer characteristics play a major role in selecting appropriate distribution channels. Businesses must understand their target market's behavior, preferences, income level, and purchasing habits.

Firstly, if customers prefer convenience and online booking, companies may choose digital platforms such as OTAs or their own website. For example, many hotels list their rooms on platforms like Booking.com and Expedia because modern travelers prefer quick online reservations.

Secondly, the geographic location of customers influences distribution decisions. International tourists often use travel agents or online platforms, while local customers may prefer direct bookings.

Thirdly, customer buying behavior also matters. Corporate clients may book through corporate travel agencies or direct contracts with hotels, while leisure travelers may compare prices across multiple websites.

Therefore, understanding customer demographics, preferences, and purchasing behavior helps companies select the most effective and accessible distribution channel.

2. Nature of the Product or Service

The characteristics of the product or service significantly affect the choice of distribution channels.

In hospitality, services are intangible, perishable, and inseparable. For example, a hotel room cannot be stored for future sale. If it remains unsold for one night, the revenue is lost. Therefore, hotels often use multiple distribution channels to maximize occupancy rates.

High-value or luxury services may require more personalized selling. For example, luxury resorts often rely on specialized travel agents to maintain brand image and provide premium customer service.

On the other hand, standardized services such as budget hotel rooms may be distributed widely through online platforms to reach a large audience quickly.

Complex tourism products, such as customized tour packages, may require intermediaries (tour operators) because customers need detailed explanations before purchasing.

Thus, the type, complexity, perishability, and pricing of the service strongly influence the channel choice.

3. Company Resources and Capabilities

A company's internal resources and financial strength also determine the selection of distribution channels.

Large hotel chains usually have strong financial resources and advanced technology systems. They can invest in their own websites, mobile applications, marketing campaigns, and global distribution systems. For example, multinational hotel brands often promote direct booking through loyalty programs.

In contrast, small or independent hotels may lack marketing budgets and technical expertise. Therefore, they rely heavily on intermediaries such as OTAs and travel agents to reach customers.

Human resources are also important. If a company has trained staff to manage direct sales and digital marketing, it may reduce dependency on intermediaries.

Moreover, companies consider cost factors. Intermediaries charge commission fees, which reduce profit margins. If a business can attract customers directly, it may increase profitability.

Hence, financial capacity, technological infrastructure, managerial skills, and cost considerations influence channel decisions.

4. Market Conditions

Market conditions such as competition, economic environment, and technological trends also impact distribution channel choices.

In highly competitive markets, companies use multiple channels to increase market coverage and visibility. For example, hotels in major tourist destinations list their properties on several OTAs to compete effectively.

Economic conditions also matter. During economic downturns, customers become more price-sensitive and compare prices across platforms. Businesses may need to distribute through price comparison websites to remain competitive.

Technological development has significantly changed distribution in hospitality. The rise of online booking platforms and mobile applications has reduced dependence on traditional travel agents.

Additionally, legal and regulatory factors may affect distribution. Some countries have regulations regarding online sales, commissions, or partnerships with foreign travel agencies.

Therefore, companies must continuously analyze external market conditions when choosing distribution strategies.

5. Channel Control and Brand Image

Another important factor is the level of control the company wants to maintain.

Direct distribution channels give companies greater control over pricing, customer data, and brand image. Indirect channels may reduce control because intermediaries manage customer communication.

For luxury or premium brands, maintaining a strong brand image is essential. Therefore, they may limit distribution to selected partners to protect their reputation.

Conclusion

In conclusion, the choice of distribution channels is a strategic decision influenced by multiple factors. Customer characteristics determine where and how customers prefer to purchase services. The nature of the product affects whether intermediaries are needed. Company resources influence the ability to manage direct or indirect channels. Market conditions shape competitive and technological strategies. Finally, brand control and profitability considerations also play an important role.

In the hospitality industry, companies often adopt a multi-channel distribution strategy to maximize revenue, increase market reach, and meet diverse customer needs. Effective channel management ensures higher occupancy rates, better customer satisfaction, and long-term business success.

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