Relationships in the Distribution Channel of Tourism: Conflicts Between Hoteliers and Tour Operators in the Mediterranean Region

Dimitrios Buhalis

SUMMARY. This paper examines industrial relationships in the distribution channel of tourism. Distribution becomes one of the most significant elements of tourism marketing as it determines all other aspects of the marketing mix. This paper concentrates on the conflict experienced in the distribution channel between hoteliers and tour operators in the Mediterranean summer/seaside resort context. It attempts to illuminate the area, to identify significant variables for its assessment and to provide a solid background for further research on the topic. Research in Greece demonstrates that Mediterranean hoteliers increasingly find the power of tour operators from Northern European countries very challenging. Similarly with other intermediaries, in order for tour operators to remain competitive in the marketplace they reduce the profit margins of their suppliers at destinations and thus reduce the profitability levels of enterprises and the economic impacts at destinations. [Article copies available for a fee from The Haworth Document Delivery Service: 1-800-342-9678. E-mail address: getinfo@haworthpressinc.com <Website: http://www.haworthpressinc.com>]

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1. DISTRIBUTION CHANNELS IN THE TOURISM INDUSTRY

Distribution channels are increasingly regarded as one of the most critical elements in marketing, as they determine the competitiveness and profitability of organisations (Christopher, 1991; Gattorna, 1990; Stern and El-Ansary, 1992). Tourism distribution channels attract more attention by contemporary researchers and strategists. Their purpose is twofold: to provide information for prospective tourists and intermediaries as well as to establish a mechanism which would enable consumers to make, confirm and pay for reservations (Middleton, 1994; Bithner and Booms, 1982; Welburn, 1987; Holloway, 1998). “In tourism, the position of the distribution sector is much stronger: trade intermediaries (travel agents and tour operators of course, but also charter brokers, reservation systems and other travel distribution specialists) have a far greater power to influence and to direct demand than their counterparts in other industries do. Since they do, in fact, control demand, they also have increased bargaining power in their relations with suppliers of tourist services and are in a position to influence their pricing, their product policies and their promotional activities” (WTO, 1975).

Several scholars attempt to define the tourism distribution channel concept. Middleton (1994) proposes that “a distribution channel is any organised and serviced system, created or utilised to provide convenient points of sale and/or access to consumers, away from the location of production and consumption, and paid for out of marketing budgets.” However, this definition ignores the promotional and marketing research activities undertaken by the channels, while it underestimates their information provision function. It also excludes local outlets, such as box offices or incoming travel agencies at destinations. Furthermore, McIntosh defines tourism distribution channels, as “an operating structure, system or linkages of various combinations of travel organisation, through which a producer of travel products describes and confirms travel arrangements to the buyer” (Mill and Morrison, 1985). The promotional element is still ignored but, the information provision function is highlighted. Moreover, the World Tourism Organisation (WTO, 1975) suggests that “a distribution channel can be described as a given combination of intermediaries who co-operate in the sale of a product. It follows that a distribution system can be and in most instances is composed of more than one distribution channel, each of which operates parallel to and in competition with other channels.” Perhaps more accurately, Wanhill (1998) suggests that “the principal role of intermediaries is to bring buyers and sellers together, either to create markets where they previously did not exist or to make existing markets work more efficiently and thereby to expand market size.”
Several generic functions and benefits are therefore enhanced by the tourism distribution channel, as illustrated in Figure 1.

Consumers may purchase various components directly from producers, while numerous distribution and sales intermediaries are involved in promoting and distributing the tourism product. There are endless variations of the tourism distribution channel, depending on each particular industry structure and external environment. Often ad-hock partnerships are established be-

**FIGURE 1. Functions of the tourism distribution channel**

- Identify consumers’ needs, requests and expected experiences
- Assemble tourism products from different providers according to customer expectations
- Provision of co-ordinated and seamless tourism products
- Facilitate the selling process by reserving and issuing travel documents
- Reduction of prices by negotiating and pre-purchasing tourism products in bulk
- Ameliorate inventory management by managing demand and supply
- Issue and deliver travel documentation, i.e., ticketing, vouchers, etc.
- Assessment of quality of facilities and products
- Assistance in legal requirements for consumers (e.g., visas) and suppliers
- Facilitate communications between consumers and suppliers especially in multilingual and multicultural environments
- Reduce the perceived risk for consumers
- Provision of information by using leaflets, maps, brochures, video, CDs
- Consumers guidance/advice/consultation
- Undertake pre- and post- experience marketing research
- Facilitation of access to often remote tourism products, for both bookings and purchasing
- Establish a clearing system where each channel member receives payments for their services
- Spreading the commercial risk involved between channel members
- Arranging details and ancillary services, such as insurance, visa, currency, etc.
- Assume risk when pre-purchasing tourism products
- Promotion of particular products or packages, in co-operation with suppliers
- Promotion of distressed capacity in low period and at the last minute
- Complaint handling for both customers and industry
between channel members to satisfy specific demand or to provide services requested by consumers. The literature often refers to two different types of intermediaries, i.e., tour operators (wholesalers) and outgoing travel agencies (retailers) (Gee, Makens, Choy, 1989; Holloway, 1998; Beaver, 1993; Renshaw, 1997; Laws, 1997). Leisure tourism distribution channels normally include some more members. For example, incoming/handling travel agencies based at destinations undertake the handling of incoming groups. Moreover, national or regional tourist organisations and Destination Management Organisations are used by both tourists and travel trade for additional information, support documentation, classification and inspection of tourism products, co-operation in promotion, and special arrangements. Furthermore, a number of organisations offer ancillary services and may also be considered as tourism distribution channel members. These include speciality intermediaries, clubs, credit card companies, special privileged user cards, societies, religious groups and organisations (Wanhill, 1998; Mill and Morrison, 1985; Gee, Makens, Choy, 1989; Middleton, 1994).

Middleton (1994) highlights that “paradoxically, the inability in travel and tourism to create physical stocks of products, adds to rather than reduces the importance of the distribution process. In marketing practice, creating and manipulating access for consumers is one of the principal ways to manage demand for highly perishable products.” Contemporary channels not only distribute tourism products, but also influence all the other elements of the marketing mix. For example, channels often determine the price by assessing real-time demand and available supply; manipulate and formulate tourism products by combining and tailoring products according to customers’ needs and wishes; and finally facilitate promotion by targeting specific markets and establishing communication. Hence, tourism distribution decisions are critical for tourism enterprises, as they influence their entire marketing mix. Suitable intermediaries should be utilised by suppliers, as they influence both branding and image of tourism products. Tourism distribution channels vary according to products, industry structures and countries. Although similar principles normally apply there are several significant differences which prevent generalisations. This paper concentrates on the European leisure market and in particular on the summer Mediterranean seaside resorts.

2. CONFLICTS WITHIN THE TOURISM DISTRIBUTION CHANNEL: HOTELS vs. TOUR OPERATORS

Since each member of the tourism distribution channel has different commercial and strategic interests, as well as operational procedures, several intra-channel conflicts emerge inevitably. A major source of conflict is usually the incompatibility and antagonism between targets and goals set by each partner.
As each channel member attempts to protect and advance its own interests, they tend to exert a variety of power forces on their partners in order to achieve their objectives, often at the expense of their partners’ gains. A variety of conflicts are evident in tourism distribution channels. These conflicts emerge from four major sources. Firstly, the price and profit margin distribution generate inter-channel conflict. Consumers have a certain budget for their holidays and therefore channel members compete directly with their partners for a larger share. Secondly, the exceeding vertical integration generates oligopolistic behaviour, which reduces the negotiation power of small/independent channel partners and jeopardises their competitiveness. Thirdly, several operational issues can also generate conflicts often as partners fail to fulfil their obligations and/or provide the service they promised. Fourthly, as bankruptcies, mergers and take-overs are not unusual in the tourism distribution channel, partners’ financial security is often quoted as a major source of conflict. The limited financial commitments and assets required by travel intermediaries make this industry extremely volatile. The following analysis examines the major conflicts between hotels and tour operators, from the former’s point of view. The analysis also illuminates the sources of conflict and examines which types of hotels face this problem more than others and why.

Conflicts between hotels and tour operators are frequent in the tourism industry. They can be both operational and strategic. At the strategic level, the objectives of hotels and tour operators are antagonistic and incompatible to a certain extent as the two partners compete within the channel in order to maximise their financial benefit. Tour operators and in particular the larger/mass ones attempt to increase their profitability by enlarging their market share and volume, through offering inexpensively priced holiday packages. In contrast, hotels have to balance the volume of clients they serve with their average room rates, in order to maximise their yield and achieve a reasonable return on investment. Volume of business is not necessarily the best strategy, as it may jeopardise their image, profit margins and long term profitability.

The proliferation of tourism supply in many destinations world-wide, combined with a lower growth of demand, enables both consumers and the travel trade to increase their bargaining power over suppliers. Almost unlimited and undifferentiated supply in numerous destinations around the world essentially increasingly forces the industry to compete on a “cost advantage” basis. The vast majority of suppliers are Small and Medium-sized Tourism Enterprises (SMTEs). Due to the structural and functional weaknesses of most SMTEs, hotels depend almost entirely on tour operators for their communications with consumers and visibility in their major markets (Buhalis, 1994). In addition, through vertical integration, tour operators control both transportation companies (charter airlines) and retailers (travel agency
chains). Therefore such firms have established their position as channel leaders of the distribution channel (Josephides, 1993 and 1994; Renshaw, 1994; Monopolies and Merger Commission, 1986, 1989 and 1997; Baywater, 1992, 1994 and 1997; O’Brien, 1996; Howitt, 1995). Moreover, exclusivity rights (i.e., the right of tour operators to exclusively represent hotels in their markets), provide tour operators with control over hotels’ distribution mix, as they effectively determine which other channel member can feature a particular establishment in their programme. These conflicts are evident not only on the Mediterranean industry but also on several destinations around the world (Sinclair et al., 1992; Bote and Sinclair, 1991; Shaw and Williams, 1994; Valenzuela, 1991; Britton, 1989; Sheldon, 1994; Roekaerts and Savat, 1989; Ottaway, 1992; Allen, 1985). These conflicts generate an enormous pressure on principals to reduce their prices. They also reduce the economic impacts of tourism at the macro level. As a result, a consumption of local resources can be observed in most destinations, while very few initiatives are undertaken to sustain the invaluable environmental and cultural wealth of these regions.

A great differentiation between small/independent and large/mass tour operators can be observed, due to their dissimilar strategies. Most conflicts between hotels and tour operators are generated by large/mass operators, rather than small/niche ones. Small/niche operators, as for example the members of the Association of Independent Tour Operators (AITO) in the UK tend to have a greater commitment to properties and destinations. Hence, they are often considered by hoteliers as partners and even friends. They tend to concentrate more on quality and normally have higher quality standards and very loyal customers. Some of their products are specialised and often have specific requirements, which they are prepared to pay for. However, hoteliers appreciated that smaller tour operators have to compete in their marketplace with larger counterparts and thus they also require competitive and comparable pricing. In addition, tour operators from different countries have different attitudes and priorities. Typically, larger British, Scandinavian and Dutch operators are concerned with price, whilst German, American and Japanese operators seek value for money and hence are prepared to pay for better quality. This often reflects the level of competition in their home markets, as well as the orientation, values, needs and wants of their clientele.

Leisure/summer hotels in the Mediterranean region seem to have chronic and unbearable conflicts with tour operators, which they feel unable to resolve. This is partly because of their marketing and management weaknesses; incompetence and insecurity to find new partners; the fact that they get accustomed to the situation and become idle; and also to the dominance of tour operators in the industry. An in-depth analysis of these conflicts as perceived by Greek hoteliers is conducted in the following paragraphs.
3. RESEARCH METHODOLOGY

The bulk of the research analysed here took place on the Aegean Islands in Greece in 1993. In addition, a second, smaller scale, follow up qualitative survey was conducted in 1996 and 1998. This research used in-depth, structured personal interviews in order to collect sufficient data to support both the descriptive and exploratory research. Personal interviews were regarded as the only data-collection method which could provide the response rate and the wealth of information required in order to support both qualitative and quantitative analysis. Personal interviews also established an element of trust between hoteliers and the researcher and enable them to offer truthful and accurate answers. However, as the Aegean region is spread over a 95 inhabited islands archipelago, most of which have some types of tourism amenities, it was impossible to visit all of them for the field research. Hence an additional mail survey was undertaken for hotels on remote islands in order to increase the number of respondents as well as to verify that similar problems and issues are relevant to all areas on the Aegean islands.

Previous research and professional experience had demonstrated that hoteliers had identified their distribution channel as a major handicap for their operations and profitability. As a result the researcher developed a brief which was then discussed with key hoteliers and executives from the Greek National Tourism Organisation and the National and Regional Hotel Associations, as well as other researchers/academics. Unstructured interviews with 18 senior professionals enabled the identification of problems and the establishment of suitable variables for their measurement. They also illuminated this under-researched area and provided the background knowledge for developing and undertaking the survey. Following this phase a detailed semi-structured questionnaire was developed and was sent for comment and feedback to several interviewees.

The entire population of 1691 hotels on the Aegean Islands were targeted for the survey. A pilot study of personal interviews was undertaken on the islands of Kos and Chios. After adjusting the research instruments a full scale survey was undertaken on the islands of Kos, Rhodos, Lesvos and Limnos. All hotels on all other Aegean Islands were targeted through the mail survey. It is estimated that about 500 accommodation establishments were visited, and 241 interviews were completed (18 in the pilot study and 223 during the field research). The overall response rate to the in-depth interview attempts was 48.2%. The rest of the owners/managers were either unavailable during the period of the research, extremely busy or unwilling to offer an interview. Encouragingly however, the vast majority were supportive and thought that more research should be undertaken on the topic, while most properties which denied an interview often had reasons beyond their owner/managers’ control. Out of 1000 questionnaires posted a further 63 responses were re-
ceived from accommodation establishments through the mail survey. Hence the total of completed questionnaires used was 304. This represents about 18% of the Aegean total accommodation units, resulting in a coverage of 46.8% of the total capacity in beds. Hence proprietors/managers of almost half the Aegean supply participated in this research. The geographical distribution of the sample spread over 23 islands.

In-depth unstructured discussions with tourism industry entrepreneurs, executives and researchers/academics, as well as with Information Technology (IT) experts and GNTO executives were used throughout the research process. They contributed significantly to the understanding and conceptualisation of the major problems and challenges, the design of the research methodology and instruments as well as with the interpretation of the results. Qualitative research was instrumental in the research process and analysis. The following analysis offers a blend between qualitative and quantitative techniques. Descriptive statistics are employed in order to explore the nature and strength of each problem. In addition, $X^2$ tests and R correlations are undertaken in order to explain the reasons for the emerging conflicts, as well as the variables which seem to determine the seriousness of the problem. Although many R correlations presented here are weak, it is important to highlight their statistical significance in order to explore the issues in further research and illustrate which sub-variables hold stronger interrelations.

The second wave qualitative survey in 1996 and in 1998 was undertaken with key entrepreneurs as well as with the Directors of Hoteliers Associations and Tourism Boards. The purpose of this survey was to establish if any changes were experienced during the research period as well as to elaborate and clarify research findings emerging from the quantitative research. As there is no literature and research on this area, the purpose of the research was twofold: to illuminate the area by providing a better understanding of motives, realities and conflicts and also to establish variables for further research on the area.

4. CONFLICTS BETWEEN MEDITERRANEAN HOTELS AND TOUR OPERATORS

A wide range of conflicts were reported by hotels in their relationships with tour operators, although when asked directly whether they have any problems with tour operators, only 37.3% responded positively. Evidently, hotels which depend for the majority of their customers on their first and top three producing tour operators are more adamant about their problems than their counterparts [$X^2 = 28.6$, $DF = 8$, $Sig = 0.0004$ and $X^2 = 29$, $DF = 8$, $Sig = 0.0003$ respectively]. In addition, the ones which are paid indirectly by tour operators (i.e., via incoming travel agencies), as well as the ones which
accepted financial assistance in their construction and opening phases, had problems with tour operators more frequently than their counterparts \(X^2 = 36.6, \text{DF} = 8, \text{Sig} = 0.00001\) and \(X^2 = 12.1, \text{DF} = 4, \text{Sig} = 0.01\) respectively. This illustrates clearly that greater degrees of dependence generate conflicts. Although respondents verbally expressed a wide range of conflicts in their relation with tour operators, they probably feared declaring them directly.

Despite the unexpected low percentage of respondents suggesting that they had problems with tour operators, when asked to specify these conflicts, several issues were manifested. These conflicts resulted from the domination of tour operators in the tourism distribution channel, in combination with the marketing and management disadvantages of SMTEs and illustrated the severe implications for the competitiveness of hotels. The major hotel conflicts with tour operators are presented in Table 1.

Some hotel characteristics influence their ratings. Qualitative evidence confirms that hotel location plays an important role, as islands at different stages of their life cycle have dissimilar supply, resulting in varied relationships with tour operators. Hotels on developed islands face fierce local competition, which jeopardises their negotiation power with tour operators and generates a higher degree of conflicts. Hotels on developing islands tend to be more sensitive towards their occupancy and coverage of contracts in the low season, as they encounter greater seasonality. Qualitative evidence also

<table>
<thead>
<tr>
<th>Conflicts</th>
<th>Mean</th>
<th>STD</th>
<th>95% confidence interval</th>
</tr>
</thead>
<tbody>
<tr>
<td>Prices as a problem with tour operator</td>
<td>4.386</td>
<td>1.014</td>
<td>4.265-4.507</td>
</tr>
<tr>
<td>Legal coverage is one sided, covering only tour operators</td>
<td>4.261</td>
<td>1.053</td>
<td>4.132-4.389</td>
</tr>
<tr>
<td>Tour operator’s bankruptcies</td>
<td>4.260</td>
<td>1.170</td>
<td>4.116-4.403</td>
</tr>
<tr>
<td>Coverage of contracts</td>
<td>4.156</td>
<td>1.121</td>
<td>4.018-4.293</td>
</tr>
<tr>
<td>Misleading/direction of tourists to competing accommodation establishments</td>
<td>3.924</td>
<td>1.362</td>
<td>3.755-4.094</td>
</tr>
<tr>
<td>Payment delays</td>
<td>3.888</td>
<td>1.310</td>
<td>3.730-4.045</td>
</tr>
<tr>
<td>Request for high quality without payment</td>
<td>3.838</td>
<td>1.313</td>
<td>3.675-4.000</td>
</tr>
<tr>
<td>Late release of unwanted allocation</td>
<td>3.777</td>
<td>1.347</td>
<td>3.610-3.944</td>
</tr>
<tr>
<td>Accommodation allocation upon arrival</td>
<td>3.335</td>
<td>1.432</td>
<td>3.153-3.516</td>
</tr>
</tbody>
</table>

Notes: Likert Scale 1-5 (Very Unimportant-Very Important).
illustrates that when hotel proprietors operate an incoming travel agency as well, they tend to under-rate most of the conflicts with tour operators, as they can use their dual role to maximise their benefit and reduce conflicts.

4.1. Prices Charged by Hotels as an Area of Conflict with Tour Operators

The price that hotels are forced to charge tour operators for their services was the most important conflict from the hoteliers’ point of view. As most SMTEs are unable to negotiate an acceptable price with major tour operators they are often forced to accept the proposed price. Fierce competition at the place of origin of the tourist and “price wars” force tour operators to sacrifice profit margins in order to maintain market share. As a result, hotels are often given little choice but to offer, or rather accept, predetermined contract prices which cover only the devaluation of a destination’s currency and a fraction of the inflation at the place of origin, regardless of the local inflation, operational and capital costs. The inability of many SMTEs to calculate their costs accurately, as well as their lack of understanding of financial management effectively means that depreciation is not taken into account and the cost for renovations is not added to prices. Hence hotels fail to invest back to their property which makes them less attractive and pushes prices further down. Qualitative research confirmed that often prices offered by tour operators are below the variable operational cost and therefore hoteliers attempt to minimise their losses rather than maximise profit. Moreover, due to the marketing and management weaknesses of SMTEs, the inability of hotels to compete effectively in the global market reduces the possibilities to identify and utilise alternative distribution methods.

Interviewees explained that this is a chronic problem, which deteriorates gradually due to the concentration in the European tour operators industry, which increases their bargaining power. Buhalis (1995) illustrated that in 1993, Greek hotels in general had a negative profit margin (7%), while their profitability was continuously decreasing, due to their inability to increase the prices in line with local inflation and operational costs. Several interviewees explained that their prices on tour operators’ contracts have failed to increase for several years. This was despite the effects of inflation (about 15% at the time) and the cost of capital on their operational costs. They also emphasised that net prices in 1993 were cheaper in a foreign currency than 20 years earlier and several properties were forced into liquidation. They also stressed that smaller hotels which received greater pressures for lower prices could survive only because of the personal efforts and unpaid employment of proprietors’ families.

In addition, interviewees emphasised that tour operators force prices down across all accommodation categories. Hence, higher category establishments offer similar prices to one star hotels, which provide only a fraction of the
services and facilities and thus have much less investment requirements and operational costs. Interviewees expressed very strong feelings against tour operators’ practices, which they believe “blackmail” and “blood-suck” them, while they “treat them as slaves.” Finally, they illustrated that price negotiations with tour operators have become so drastic lately that they had direct impacts on the quality of their services, as tour operators often suggest the “reduction of the linen change weekly or even the toilet paper provided” in order to reduce prices.

An analysis of the average annual increase in tour operators’ contract rates was examined in order to examine the foundations of this conflict. Only 6.3% of the respondents managed to attract an annual average increase in their prices above 15% during the period 1990-1993, despite a 16.6% average annual inflation rate and higher operational cost increases. The majority (63.6%) achieved an average of less than 10%, illustrating the accumulated loss they face and their inability to maintain the quality of their services. Lower category and smaller properties suffered from this problem more severely, as they attracted lower increases [$X^2 = 18.2, DF = 12, Sig = 0.1$, and $R = 0.22, Sig = 0.0004$]. Related with the size and category of hotels, their marketing budget plays a significant role in the annual increase of contract prices. Properties with higher marketing budgets achieved higher price increases, confirming the argument that SMEs’ strategic weaknesses and low channel power result from their marketing and management disadvantages.

Not surprisingly, the distribution mix is another issue which influences the achieved prices on tour operators’ contracts. The more tour operators they co-operate with, the more likely hotels are to accomplish a higher price increase [$R = 0.25, Sig = 0.00006$], as they spread their capacity to several partners and markets and therefore diminish their dependence. Similarly, the hotel allocation to the first and top three producing tour operators plays an instrumental role in their ability to increase their prices. The higher the allocation hotels offer to the first and top three producing tour operators, the less the price increase they are likely to achieve [$R = 0.24, Sig = 0.0002$ and $R = 0.15, Sig = 0.02$ respectively], reinforcing the implications of the dependence on prices. Moreover, the qualifications of respondents, as well as their job title were reflected on the increase of prices achieved. Expectedly, better qualified respondents had more marketing skills, and therefore could negotiate better and reject unprofitable contracts, achieving higher price increases. The ability of managers to attract better prices from tour operators than owners can be a result of several factors. Not only do managers tend to be employed in larger and higher category properties, but also they are often better qualified, as they are obliged by law to hold certain educational and professional qualifications. Understandably, the higher the average annual
price increase on tour operators’ contracts, the more satisfied respondents were with their operations \( R = 0.37, \text{Sig} = 0.0 \).

The number of tour operators co-operating with each hotel influences the rating of the price conflict. The fewer tour operators co-operating with a hotel, the higher this conflict was rated \( R = 0.11, \text{Sig} = 0.07 \). Also the higher the allocation offered to the first and top three producing tour operators, the higher respondents rated the price conflict with tour operators \( R = 0.11, \text{Sig} = 0.08 \) and \( R = 0.12, \text{Sig} = 0.07 \) respectively. Although statistically significant, these correlations are not strong. Interviewees provided qualitative evidence confirming these inferences. Interestingly, properties which do not co-operate with tour operators rated the price problem indifferently as a “very important” one. This is a result of their previous experiences, which have forced them either to cease or never to initiate co-operation with tour operators. Naturally, the rating of this problem depended on the annual price increase to tour operators, as there was a low negative relationship between the price increase achieved and the rating of this conflict \( R = 0.19, \text{Sig} = 0.002 \). The price dispute was also reflected in hotels’ satisfaction with their performance, as the lower the rating of the price conflict with tour operators, the higher their satisfaction with their performance \( R = 0.27, \text{Sig} = 0.00001 \). Personal characteristics of the respondents also affected their perception of the price problem. For example, their job title influenced their rating, as owners tend to rate this conflict higher than managers \( X^2 = 14.3, \text{DF} = 4, \text{Sig} = 0.006 \), perhaps due to the characteristics of the properties they represent. In addition, there was a weak correlation between these conflicts and their academic qualifications, which was also supported by qualitative analysis. Less qualified respondents rated the price problem higher than better qualified ones. This is due to their relatively lower ability to negotiate with tour operators or to identify alternative ones, as well as by the fact that better qualified respondents are normally employed in larger and higher category properties.

Evidently therefore the strategic weaknesses of SMTEs are greatly responsible for the difficulties they face in achieving adequate price increases in their contracts with tour operators. The size and types of hotel, the hotel category, marketing budget, distribution mix and the qualifications of decision makers were identified as statistically significant variables and determined their ability to negotiate annual price increase on their contracts with tour operators. Smaller properties suffered the consequences more severely, as they could not achieve adequate price increases on tour operators’ contracts and consequently were driven by the “downward/pessimistic quality cycle,” effectively deteriorating their profitability yearly.

Interviewees elaborated on nine techniques tour operators use to suppress
their prices, as illustrated in Figure 2. They argued that a wide range of techniques are being used which aim to control the desirability and demand for particular destinations and properties, in order to keep prices down. First, as tour operators finalise their contracts more than one year before the arrival of their customers (typically they sign contracts in July for the following summer season) the (1) timing of negotiating contracts plays an important role in the bargaining power of each partner. If a particular year is forecasted to be rather good for a destination, i.e., a healthy level of bookings is expected, tour operators try to withhold information about bookings and negotiate hotel contracts for the next year quite early, during the low period. This enables them to capitalise on hoteliers’ agony for the current season and to persuade them easily to drop prices in order to stimulate demand. If negotiations are postponed and hoteliers enjoy a “good season” they would be confident and thus reluctant to reduce their prices. In contrast, when a year is predicted to hold low demand for a destination, tour operators attempt to negotiate contracts later during the season, in order to take advantage of hotels’ disappointment and their inclination to offer special offers for last minute bookings. Hoteliers claim that once they have agreed the contracts for the next year, the real booking situation is presented to them by tour operators.

Secondly, interviewees claimed that tour operators often use their (2) customer satisfaction surveys to ask for a further deduction on prices or special offers. In a monthly confidential report a variety of qualities are assessed, rated and ranked for all hotels used by tour operators in each destination. Several interviewees accused tour operators of altering the figures in order to argue that hotel services are incompetent and therefore, request better services (without increasing prices) or further price reductions. Should they disobey, hotels are threatened with their contract being cancelled for the next

**FIGURE 2. Nine Techniques Used by Tour Operators in Order to Reduce Prices at Hotels**

1. Timing of negotiating contracts-bargaining during low occupancy periods
2. Misquoting customer satisfaction surveys
3. Directing/Misleading tourists to certain properties
4. Short release period which does not allow adequate time for selling unused rooms
5. Over-contracting and renegotiating of prices after low coverage of contracts
6. Structural destination seasonality circle
7. Alter/misleading image for destinations and properties
8. Play hotels against each other
9. Oligopsony (few buyers) at destinations
season, while no last minute bookings are provided in the low season. These techniques are based on tour operators' expert and coercive power over hotels. Hotels are not in a position to know the real picture of their bookings while they are constantly threatened with cessation of co-operation or reduction of bookings. Hotels explained that power is also applied by (3) directing tourists to certain properties, often by untruthfully suggesting that their original property has no vacancies, is overbooked or even experiences a major problem and may be a health risk! This is often used in conjunction with the "timing of contracts" technique as explained earlier.

A very (4) short release period, typically one-two weeks for "allotment" contracts and not even one day for "commitment" contracts prevents hoteliers from knowing the booking situation until too late. This is often combined with (5) over-contracting properties and re-negotiation of prices after a low coverage of contracts in order to increase demand. As a consequence, hoteliers have inadequate time to search for alternative markets and in most cases cannot rent their rooms. This is explained further in paragraph 4.8 and it is closely linked with "last minute" discounts as described in paragraph 4.9. Hoteliers claimed that especially in the low season tour operators often withhold confirmed bookings until a "special last minute offer" is negotiated. Once this is achieved tour operators confirm bookings they already had received for months and they profit extra from the special deal, as they do not reduce the price for customers.

SMTEs and hotels compete globally and it seems that there is a new type of (6) structural seasonality circle, which occurs especially between Mediterranean destinations. This is the effect of exceeding supply in the world tourism industry. As these destinations are often regarded as substitutable by consumers, tour operators were accused by interviewees of rotating their promotional emphasis between destinations. Hoteliers claimed that tour operators regularly arrange for destinations to have "one (or two) good year(s) following a bad one." For example, tour operators may promote one particular destination for one year (such as Spain), next they may advertise Southern France and Italian destinations, while in the third year they probably recommend Greece, Cyprus and Turkey. Public relations and marketing techniques such as advertising, coverage by media, destination reports, programmes on activities or crime in an area, can (7) alter destinations' image and influence demand. In this manner tour operators ensure that a destination enjoys high demand only once every several years. Consequently, they can exercise their coercive and expert power in order to maintain their negotiation strength and achieve low contract price. Should demand for a destination increase, hotels can achieve a temporarily higher increase in price, which then results in a drop in demand and further price reductions over the next one or two seasons.
Tour operators also (8) play hotels against each other during the bargaining process for new contracts. They deliberately quote that higher quality hotels offer lower prices from those negotiated and thus pressurise smaller properties to reduce their price. As hoteliers compete locally and also have a confidentiality closure in their contract, they are unable to check the validity of this claim and are forced to further reduce their prices.

Interviewees suggested that tour operators often formulate “gentlemen’s agreements” not to interfere in each others’ relationships with local hotels, unless it becomes unavoidable. This is “price fixing” and hence against competition laws. This enables them to impose an (9) oligopsony (few buyers) and increase their power over hotels. Several examples were quoted of tour operators offering contracts with much better terms, once a contract with another tour operator was terminated, but never while the co-operation was still active.

The analysis clearly illustrates that hotels are trapped in a spiral, which results in deterioration of the product quality offered to tourists, reduction of consumers’ willingness to pay and further price reductions over the following seasons. Smaller and lower category hotels, which co-operate with one or a few tour operators often suffer more severe implications. However, a few interviewees, often representing larger and higher category properties, highlighted their differentiation in this fatalistic approach and stressed that there is a way of reversing this spiral. An “optimistic cycle” of improving the quality, initially financed by some hotels improved customer satisfaction and increased their willingness to pay. As a result, hotels enhanced their negotiation power, improving their profitability. Pricing of tourism products is a pivotal issue in the relationship between tour operators and SMTEs. It affects the profitability and viability of SMTEs at the micro level, and it also determines the economic benefits and influences the competitiveness of destinations at the macro level.

4.2. One Sided Legal Coverage Only for Tour Operators

In addition, most hotel respondents felt that contracts and agreements are one-sided, offering legal coverage only for tour operators, and leaving them uncovered should tour operators fail to perform their obligations. As more than 80% rated this criterion “important” or “very important,” there were few statistically significant relationships between hotel characteristics and their rating. However, qualitative research suggests that smaller and lower category properties face this problem more drastically, as they have no financial means and legal expertise. Thus, they feel powerless to pursue any dispute they have with tour operators through the legal system.

Not surprising it seems that properties co-operating with fewer tour operators overrated this conflict. Hotels which do not co-operate with any tour
operators often quoted this conflict as the major reason for not attempting to do so. The more dissatisfied respondents were with their financial performance, the more unprotected they felt \( R = \square 0.23, \text{Sig} = 0.0002 \). Naturally owners, in comparison with managers rated this problem higher than their colleagues \( X^2 = 7.3, \text{DF} = 4, \text{Sig} = 0.1 \). This is not only because they probably represented more vulnerable hotels, but also because they had a greater marketing and management illiteracy and therefore, were more reluctant to take risks and have a more aggressive distribution attitude.

### 4.3. Tour Operators’ Bankruptcies

Closely related and almost equally rated with the above issue is the ‘‘tour operator’s bankruptcy’’ conflict, which was often characterised as ‘‘nightmare.’’ Once a tour operator is forced into liquidation, hotels are some of the last recipients of compensation after consumers and other legal bodies. This is in spite of the fact that they may have already delivered their products and services. Liquidations of major tour operators occur frequently and as they normally have very little assets, most hotels lose significant amounts of money. As they cannot afford to follow the legal procedures, losing money through a tour operator’s bankruptcy is almost inevitable. Consequently there was a consensus among respondents on this issue and few differences according to their property characteristics. However, there was a negative relationship between the capacity of hotels and the rating of this conflict \( R = \square 0.12, \text{Sig} = 0.06 \). This illustrates that smaller properties tend to rate this conflict higher, as they often formulate agreements (and ‘‘commitments’’) with unknown and more risky tour operators. A tour operator bankruptcy may result in a loss equivalent to their revenue for one or two seasons.

Qualitative research illustrates that almost 20% of the respondents had at some stage lost large amounts of money from bankrupt tour operators. Liquidation of a tour operator has severe implications for hotels’ future revenue and ability to fill their rooms for the next season, as they need to re-contract the unexpectedly available allocation to other tour operators, often at the last minute. Usually, new tour operators step in to acquire the available capacity, but often they are prepared to pay only a fraction of the original contract prices, as they realise that hotels are desperate to find new partners and hence have no bargaining power. Thus, tour operator bankruptcy has severe implications, not only for payments due, but also for the occupancy levels and profitability in the next years.

### 4.4. Coverage of Tour Operators’ Contracts

The coverage of tour operators’ contracts (i.e., the actual bookings vs. the contract reservations) was also rated consistently above the ‘‘important’’ line,
due to its contribution to the occupancy levels of hotels during the low season. As hoteliers offer special rates, based on the assumption and promise that an appropriate coverage or occupancy level will be accomplished on the allocation of each tour operator, achieving these levels is vital for trouble-free co-operation between the two partners. Qualitative analysis however illustrates that tour operators tend to under-utilise their allotment in the low season and overuse it in the high season, causing low occupancy and over-booking respectively.

Firstly, an examination of the actual average contract coverage levels needs to be undertaken in order to assess which type of properties face a greater problem. The larger the hotel, the higher the level of actual coverage of their contract they manage to achieve \( R = 0.19, \text{Sig} = 0.006 \). This can be a result of the ability of larger properties to re-allocate allotments to other tour operators, should some of them be unproductive, and thus increase the average contract coverage. This hypothesis can be confirmed as the more tour operators co-operate with a hotel, the better the actual average contract coverage was achieved \( R = 0.2, \text{Sig} = 0.003 \). Moreover, there was a positive relationship between the marketing budget of hotels and their ability to achieve high contract coverage \( R = 0.19, \text{Sig} = 0.02 \). Manager respondents achieved better coverage of contracts in comparison with owners \( X^2 = 17.3, DF = 4, \text{Sig} = 0.001 \), while the higher the academic qualifications of respondents, the higher the contract coverage they managed \( X^2 = 35.9, DF = 20, \text{Sig} = 0.02 \). This is perhaps as a result of more capable and qualified managers being employed in larger properties.

Tour operators often argue that should a hotel increase prices above the industry average, it would suffer from low demand and therefore low coverage of allotment. However, there was evidence that hotels with minimal annual increases in prices suffer equally from low coverage. Therefore, it can be concluded that the price does not necessarily determine demand and tour operators’ contract coverage. Instead, offering value for money and quality at every price level determine the contract coverage.

The coverage of tour operators’ contracts is also rated as a major source of conflict. Larger hotels rated this problem quite higher than their counterparts, as they normally depend on tour operators for almost all their clientele during the low season. In addition, they felt pressurised to cover their operational costs. In contrast, smaller and often family-run hotels underrated this problem as they do not need to pay for under-employed personnel (family). Moreover, as smaller and lower category properties and especially apartments, formulate “commitment contracts” they are paid by tour operators, regardless of the occupancy achieved. Therefore, in the short term, smaller hotels can in fact benefit from low contract coverage, both from reducing the variable costs and also by “double selling” their rooms to new customers.
However, they lose revenue from the food and beverage departments, as well as any additional services offered. In the long term, low coverage of the contract is interpreted as low desirability for the property and results in a reduction of negotiation power, and perhaps in prices in the following seasons. Several interviewees claimed that even in commitment contracts tour operators tend to request a re-negotiation during the same season, should they fail to cover their allocation.

Interviewees suggested that low coverage of tour operator contracts results from over-contracting. They explained that the practice is followed by tour operators in order to cover unpredictable high demand as well as to increase their bargaining power with hotels. Tour operators often contract up to 150% of their aircraft capacity in order to have the flexibility to re-adjust their operation, should a demand increase occur. Although tour operators have a clear indication of the bookings level by March, they keep their accommodation allocation until their release period. Interviewees also emphasised that although the Greek law gives hoteliers the right to reduce tour operators’ allotments in the high season, should they fail to provide a reasonable coverage in the low season, this practice is very rarely followed. Hotels fear confrontation with their channel partners, as well as the penalties over the following years. Only a very small percentage (8%) of competent respondents quoted that should tour operators fail to provide sufficient coverage of their allotment, they would refuse to renew their contracts for the next season, indicating that the vast majority of hotels have a fatalistic attitude when designing their distribution mix. In contrast, most respondents believed that a certain degree of overbooking is inevitable in order to resolve this problem.

Furthermore, about 12% explained that in the past tour operators have cancelled contracts a few months before the arrival of consumers, without paying any compensation. This does not only occur on allotment contracts, where tour operators have no financial obligations if they do not provide customers, but also on commitment contracts, where tour operators have total control of the property and clearly undertake the entire risk for the season. This practice is fairly unusual and normally follows unforeseen events such as the Gulf War or tour operators’ bankruptcy. However, several tour operators cancelled a contract at the last minute, simply because they could use cheaper properties or because they could forecast a lower demand than originally expected. This practice may result in financial disaster, especially for smaller hotels which often depend on one or a few tour operators for their entire clientele and revenue. They are forced to find alternative ways to distribute their products at the last minute, but often incoming travel agencies or other tour operators take advantage of their anxiety and gain enormous discounts, damaging their profitability.
4.5. Misleading/Directing Customers to Particular Tourism Enterprises

The issue of misleading consumers to particular tourism enterprises was emphasised by respondents. They suggested that tour operators are keen to fill their allocation in certain hotels first. These are normally properties on commitment contracts; properties which still negotiate a larger allotment and try to reduce rates; and finally, hotels which offer greater profit margins, especially through “last minute” deals. Interviewees claimed that tour operators divert demand towards these preferred properties by manipulating their presentation in brochures. They also claimed that tour operators often quote that the consumers’ original accommodation choice is sold out or overbooked, and there is no more availability. This can happen when tourists attempt to book their holidays at an outgoing travel agency or even upon arrival. As compensation levels for changes effectively are minimal tour operators can easily convince most holidaymakers that a “little swap” is essential, due to unforeseen reasons, without affecting their holidays. For example, maximum £40 for Airtours and £50 for Owners Abroad, in 1994, if customers were notified in 0-14 and 0-7 days respectively, for change to an inferior standard accommodation. Often the problem appears at the last minute, travel agencies blame hoteliers and customers are happy to accept any alternative accommodation that is available at the time in order not to miss their holiday slot. About 10% of the interviewees repeatedly claimed that their loyal clients, who had enjoyed their one particular hotel and even formulated friendships with proprietors and personnel, have been forced to accept alternative accommodation or to miss their holidays. When they visited their preferred hotel they often found that their original choice had plenty of availability and they felt deceived.

Evidently, the misleading problem was emphasised by lower category properties, while “A” and “Lux” category hotels, as well as “apartments” rated this problem as less important. In the first case, high category hotels are not easily replaceable, as they have their clientele and distinctive product. On the other side, “apartments” normally benefit from this practice as they have a priority in bookings, due to “commitment” contract. This was supported by the negative relationships between the percentage of hotels offered on a commitment basis as well as the allocation to the top producing tour operators and the rating of this conflict \[ R = -0.26, \text{Sig} = 0.00003 \] and \[ R = -0.24, \text{Sig} = 0.0002 \] respectively. Moreover, there was a positive relationship between hotels’ rating of the need to increase co-operation at the destination and the misleading of customers as a conflict \[ R = 0.22, \text{Sig} = 0.0004 \]. This is attributed to the fact that respondents who highlighted this problem supported greater co-operation at the local level.

As tourists tend to formulate personal relationships with proprietors in smaller properties, they are the ones who emphasised this conflict with tour
operators. This technique is also followed for entire destinations as well, and demonstrates the power of tour operators on the clientele and profitability of hotels. Interviewees suggested that when consumers made inquiries to tour operators for the reasons of misinformation, they were quoted that “although the property had some availability, there was no space on the charter flights,” underlying the problem of over-contracting. There were also examples of prospective tourists asking for availability in one particular country, during the low period, only to be told that the entire destination is either sold out or unavailable. They are normally being directed to alternative destinations which experienced a low demand or would contribute more to the profitability of tour operators.

4.6. Delays in Payment

Tour operators earn for up to 25% of their profit margins on interest gained. Despite being paid well before consumers arrive at the destinations, the industry norm is to settle bills two weeks after clients’ departure. Several interviewees claimed that their payments were delayed as long as one year. Usually, local incoming/handling travel agencies are in the middle of the dispute. They are accused by hoteliers of withholding money for a period of time in order to benefit from the interest and for improving their cash flow. This problem was experienced to a greater extent by smaller properties, as they have less bargaining power to request a prompt settlement than their counterparts. However, no statistically significant relationship between hotel characteristics and the rating of this conflict could be established.

4.7. Request for High Quality Without Appropriate Payment

Frequently, hoteliers accused tour operators of demanding unrealistically high quality products, despite their reluctance to pay adequately. This conflict was slightly overrated by higher category and larger properties, which offer a very wide range of facilities and services, as they were constantly asked to be requested to improve quality. In addition, there is a positive relationship between the ratings of the need to increase co-operation at the destination level and the ones for this conflict [R = 0.2, Sig = 0.001], highlighting that hotels regard closer local co-operation as a way to provide a better quality service. As expected, there was a low negative correlation between the development of hotels’ relations with tour operators and this conflict [R = -0.14, Sig = 0.03], illustrating that this conflict contributes to the disputes between the two partners.

4.8. Late Release of Unwanted Accommodation Allocation

Late release of unwanted hotels’ allocation is another conflict observed between hoteliers and tour operators. Most allotment contracts have a “re-release period,” which obliges properties to accept bookings by a tour operator
until one or two weeks prior to customer arrival, while preventing them from accepting reservations from alternative channels and independent travellers. Although tour operators may have a confirmed booking for one particular property, hotels are not normally notified until the release period. This conflict is closely related to the "coverage of tour operators’ contracts" problem (see paragraph 4.4).

Should tour operators fail to cover their allocations hotels are unable to find customers at the last moment and often are left with unoccupied rooms, jeopardising their profitability. Several interviewees accused tour operators of using the late release option in order to enhance their leadership in the distribution channel. Tour operators can also withhold reservations in order to either divert demand to alternative properties providing better profit margins, or re-negotiate for further last minute discount with the hotel. Capitalising on hoteliers’ agony in periods when they have low occupancy rates, minimal opportunities to sell their rooms elsewhere, and few reservations for the next weeks, tour operators often explain to hotels that their property “is not selling well.” Then they are asked to reduce their prices again and to provide special offers in order to stimulate the very price-sensitive “last minute” market. Interviewees explained that once hotels reduce their prices, tour operators almost “magically” supply “healthy” booking lists of customers, who most probably had reserved their holidays well in advance. In this way, tour operators increase their profit margins, while ensuring further price discounts for the next seasons.

This conflict was emphasised by smaller and lower category hotels. In contrast, “apartments” are often contracted on a “commitment basis” and thus under-rated this conflict because they get paid regardless of whether their rooms are used. There was also some qualitative evidence demonstrating that very large hotels were less concerned about this conflict, as they could re-allocate their rooms to other co-operating tour operators or use other channels and maximise their occupancy. Moreover, respondents’ title influenced the rating of this conflict. Owners rated it higher than managers [$X^2 = 8.4, DF = 4, Sig = 0.07$], perhaps because they often represent a smaller hotel which co-operates with fewer tour operators. Interestingly, there was a negative correlation between the annual tour operator price contract increase and the rating of this conflict [$R = 0.19, Sig = 0.004$], illustrating that hotels which manage to achieve a higher price increase suffer less from the late release problem. This can only be interpreted as properties which offer appropriate services, build a strong reputation, and therefore can attract both higher price increases and also enjoy intentional demand. Also a negative relationship between the development of hotels’ relation with tour operators and this conflict [$R = 0.2, Sig = 0.002$], illustrated that the higher respondents rated this conflict, the more they suggest that their relation with tour operators deteriorates.
4.9. Accommodation Allocation upon Customers’ Arrival

Closely related with the above conflict, as well as the coverage of tour operators’ contracts, is the “accommodation allocation upon consumers’ arrival” as a problem. Interviewees attributed this practice to the attempts by tour operators to re-negotiate prices at the last minute and to direct tourists to where their commercial interests lie. Respondents claimed that this practice reduced consumers’ awareness of the tourism product and region; increased their ignorance; diminished the importance attributed to the local culture and history; and caused irregularities and operational problems for hotels. They also claimed that tourists suffer from this practice as well, since they are normally allocated to inferior quality accommodation.

Evidently, this conflict was rated highly by lower category hotels, which are normally provided by allotment contracts. The more the allocation to the top producing tour operator, as well as the higher the percentage offered on a commitment contract, the lower this conflict is rated \[ R = 0.18, \text{Sig} = 0.006 \] and \[ R = 0.25, \text{Sig} = 0.0001 \] respectively. This suggests that smaller properties and apartments which are distributed through few tour operators, often on commitment contract, can enjoy a boost in their occupancy at the last moment and thus, they underrated this problem. Naturally, the rating of the tour operator relations development is negatively related with the rating of this conflict \[ R = 0.18, \text{Sig} = 0.005 \], demonstrating that hoteliers who believed that there was an improvement in their relation with tour operators underrated this conflict. Finally, there was a slight positive correlation between the rating of the need to increase co-operation at the destination and the rating of this conflict \[ R = 0.16, \text{Sig} = 0.01 \], illustrating that respondents may regard local co-operation as a way to reduce this problem.

4.10. Change of Relationship with Tour Operators over the Years

In order to examine hoteliers’ perception on the overall development of their relationships with tour operators over the last five years, a Likert Scale (1-5: Much Worse-Much Better) was employed. Responses reflected their disappointment which was evident in the qualitative analysis, as on average they believed that their relation deteriorated (mean = 2.18, STD = 1.08). Some 33.2% of the respondents believed that the situation was becoming “much worse,” while 32.9% rated it as “worse.” Moreover, 17.7% reported that the situation is “stable” while only 15.2% could see an “improvement,” and a further 0.7% declared a “big improvement.”

Lower category properties emphasised that their relationship with tour operators and their negotiation power deteriorated constantly, while higher category hotels and “apartments” were slightly more optimistic. This can be interpreted as a result of the high quality facilities offered by higher category
hotels as well as the demand for self-catering accommodation, which effectively increased the competitiveness and inter-channel power of "these categories." Understandably, there was a fairly strong negative correlation between the majority of the aforementioned conflicts and the rating of the development of hotels' relationship with tour operators. Naturally, the higher the price conflict was rated, the worse the development of the relation was assessed \([R = 0.31, \text{Sig} = 0.0]\). This was also confirmed as, the higher the discount that was offered by hotels in allotment contracts in the low and high season as well as on commitment contracts, the worse they rated the development of their relationship with tour operators \([R = 0.17, \text{Sig} = 0.05 \text{ and } R = 0.29, \text{Sig} = 0.06]\) respectively. Moreover, several other negative but lower correlations with other conflicts were evident: "legal coverage is one sided" \([R = 0.17, \text{Sig} = 0.008]\), "late release" \([R = 0.19, \text{Sig} = 0.002]\), "coverage of contracts" \([R = 0.24, \text{Sig} = 0.0001]\), "request of high quality without extra payment" \([R = 0.14, \text{Sig} = 0.03]\), and "misleading of tourists" \([R = 0.14, \text{Sig} = 0.02]\). Consequently the higher the rating conflicts with tour operators, the more respondents felt that the relationship between themselves and tour operators deteriorated. There was also a trend for newer hotels to be more positive towards the developments in the relationship with tour operators \([X^2 = 25.2, \text{DF} = 15, \text{Sig} = 0.05]\). This is perhaps because tour operators tend to move from older properties to modern ones, which offer a better range of facilities, and thus enjoy a higher level of competitiveness. In addition, there was a low positive correlation between the number of tour operators in co-operation and the development in hotels' relationships with them \([R = 0.12, \text{Sig} = 0.04]\). This underlines that hotels which co-operate with a larger number of tour operators enjoy a stronger position. It also illustrates that larger and higher category hotels are in a more privileged position within the distribution channel. Finally, there was also a positive relationship between the change of relation with tour operators and the level of hotels' satisfaction by their performance \([R = 0.33, \text{Sig} = 0.0]\). Clearly hoteliers' relationship with tour operators is pivotal for their profitability and satisfaction. New methods should therefore be identified to enable a closer and better co-operation between the two partners.

5. A WORD OF CONCLUSION

This paper examines the under-researched area of relationships in the distribution channel of tourism. A brief introduction to the theoretical framework illustrates that distribution becomes one of the most significant elements of tourism marketing. The paper then concentrates on the conflict experienced in the distribution channel between hoteliers and tour operators in the Mediterranean summer/seaside resort context. The paper aims to illu-
minate this area, to identify significant variables for its assessment and to provide a solid background for further research on the topic.

In conclusion, the majority of hotels’ conflicts with tour operators tend to concentrate on the profit margin they are allowed to gain, the occupancy and coverage of contracts, as well as the financial security of their co-operation. Evidently hoteliers rated these conflicts according to a number of factors, mainly their competitiveness in the distribution channel, as well as their dependence on the tour operators. In most cases respondents from larger and higher category hotels under-rated the aforementioned conflicts, due to their ability to amend their distribution mix in order to take advantage of alternative and more profitable tour operators, should their co-operation fail to yield satisfactory results. In addition, the differences between contract types also played a significant role in ratings. For example properties which are based on commitment contracts, such as “apartments,” tend to underrate conflicts referring to occupancy, release periods and contract coverage. The number of tour operators a property co-operates with was often instrumental in the rating of conflicts, as it determined dependency. The more the tour operators in co-operation, the easier it is to re-engineer the distribution channel and therefore the lower the conflict levels were rated.

In addition, the stronger the competitive position a hotel gains, the less problems it encounters with tour operators, due to a more equal distribution of power within the channel. In contrast, easily replaceable, small, unsophisticated hotels which lack a wide range of required facilities tend to face a wide range of problems, on both occupancy and profit margin aspects. Should they fail to obey tour operator requirements, small properties can experience extensive coercive and expertness power from tour operators. Therefore, hotels are required to assess their strategic position, identify specific attributes which would enable them to differentiate their product, attract and satisfy niche markets and formulate co-operation schemes at the destination level. Closer collaboration and the utilisation of information technology would enable hoteliers to expand their distribution mix and to enhance their position in the distribution channel. Failing to do so will deteriorate their competitiveness, as globalisation and vertical integration in European tourism effectively means that they will have an even smaller number of larger and more powerful tour operators to deal with in the future. Collaboration and innovative use of information technology will facilitate the increase of the competitiveness of both individual hotels and destinations as a total (Buhalis, 1991, 1993, 1994 and 1995; Buhalis and Cooper 1998; Cooper and Buhalis, 1992). Hence they will be able to augment their power within the tourism distribution channel and gain tools which will allow them to overcome conflicts with tour operators and collaborate on a more equitable basis.
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