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## Exploration of Hotel Distribution Channels in China – Focus on Hotel Call Centers

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Exploration of Hotel Distribution Channels in China — Focus on Hotel Call Centers

by

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of the requirements for the

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## **PART ONE**

### **Introduction**

In a world of increasing global competition, choosing an effective distribution channel is crucial for hoteliers to deliver value for their products and services. As hotel rooms are perishable, if they are not sold each night no revenue will be generated. So, we always see the distribution channel as one of the most important parts in the selling process. With the explosion of Internet commerce and computer usage, online distribution is fast growing up to become one of the popular and effective distribution channels in use. However, will functions of traditional distribution channels die from the boom of the new online distribution channels? Although these distribution channels are currently the most popular, it not simply means that traditional ways can be replaced.

Previous studies have more concentrated on travel agents and hotel cooperators; very little has been performed on the study of hotel call centers. Although hotel call centers have multiple functions other than distribution, the call center is still one of the primary distribution channels, even in this Internet-dominated period. Moreover, call centers as a hotel distribution channels have additional functions that online distribution channels do not have.

### **Purpose**

The purpose of this professional paper is to explore the primary functions of the hotel call center as an effective distribution channel for use within the growing hotel industry in China.

### **Statement of Objectives**

This paper will provide a general discussion of primary traditional distribution channels and emerging distribution channels within the hotel industry. Second, this paper will focus on the main functions of a hotel call center as a distribution channel, gather applications of call centers,

such as existing successful examples in current industry, and explain developing trends in operating hotel call centers. Third, this paper will generally analyze the development situation and specialties of the Chinese hotel market and applicability of the call center concept to China. Finally, a series of suggestions, taking particular situations in China into consideration, will be provided as a guide for Chinese hoteliers when planning to utilize the call center idea within their properties.

### **Justification**

With the high speed growing of online distribution channels in the hotel industry around the world, many hoteliers are only attracted by online distribution's speedy transactions, large volume reservations, and easy operation. However, most of them ignore the functions of one of the most valuable hotel distribution channels, namely call centers. Moreover, one specific distribution channel can convey the values of products to its target customer groups, and the groups of customers connected by hotel call centers have the capability to generate more revenue than online channels.

In China's hotel industry, this hotel call center idea is valuable since online travel agencies are taking prominent position in the Chinese distribution market, and hotel call centers can produce more long-term loyal customers, rather than those only attracted by fierce price competition. Chinese domestic hoteliers should not just become involved in simple price competition with large Online Travel Agents (OTAs), but find other ways to survive in such a competitive market. Thus, to achieve the goal of getting rid of fierce competition from online distribution and building one's own long-term customer base, clarifying valuable functions and exploring applications of hotel call centers in China is essential.

### **Constraints**

Variability is the primary characteristic of China's hotel market. There are variable categories of hotel properties, such as international hotel corporations, government-owned hotel groups, and different types of organization-owned hotel properties, budget hotel chains, and individually owned hotels. In such a complex market, utilizing the call center concept is probably not applicable for implementation in the general hotel market, as there are accurate guidelines which can be directly applied. Hence, hoteliers still need to consider their own situations and limitations when using these suggestions.

### **Glossary**

**Distribution channel:** A distribution channel is a method of getting a product available for use to customers (Sherry, C. 2012).

**Call Center:** A call center can also be referred to as a customer interaction center or e-contact center. It typically includes special software to deal with customers' information, which is a central point in an enterprise from which customer contacts are collected, analyzed, and managed (Margaret, R. 2007).

## **PART TWO**

### **LITERATURE REVIEW**

#### **Introduction**

A review of the important functions of the hotel call center as an effective distribution channel will largely help hoteliers to clarify the importance, which has been mostly ignored, of a hotel call center. An overview of the current condition of China's hotel market will assist Chinese hoteliers to understand their positions in the market and then apply the call center more effectively as a distribution channel to different properties. First of all, the definition of "distribution channel" must be clarified. Then, examples of traditional distribution channels and emerging distribution channels will be described; in order to clarify the developing process of how hotel distribution channels, as well as other channels, can serve different groups of customers.

Hotel call centers, as one of the primary traditional distribution channels, emerged in the eighteenth century and still influence the current hotel industry. Some people claim that hotel call centers have died in this era of the Internet and computers. However, current examples of successful applications of hotel call centers prove those claims are inaccurate. Thus, the important functions of a hotel call center as a distribution channel need to be explained.

Without exception, issues involving China's hotel industry are the hottest in the field. The last part of the literature review in this paper will provide the specific situation of China's current hotel market. Finally, based on the particular requirements of China's hotel industry, the reasons why the call center is a promising distribution channel must be described.

#### **Review of distribution channels**

##### **General definition of distribution channels in the hotel industry**

A distribution channel is the vehicle utilized to make a product or service available to consumers (Laura, 2011). It is a bidirectional, simultaneous path, through which products and

services travel from vendors to consumers and payments flow back in the opposite direction (Business Dictionary). Generally speaking, a distribution channel, as an irreplaceable conveyance in the life cycle of a product, connects the supplier and buyer, and realizes the values of both parties.

Customers of the hotel industry are widely in age, come from every corner of the world, and hold diversified life-styles, and follow individually preferred paths to reach the hotels' products. Therefore, the effectiveness of different types of distribution channels for hotels is important. The best distribution channel has its corresponding target markets and target customers. As a result, simply utilizing the most economical distribution channel cannot maximize the potential profit. Completing this challenging task, ~~it~~ requires an understanding of the wide array of available distribution options, their sales models, costs, applied environment, and relative appropriate customers, as well as how they interact with customers and hotels (Laura, 2011).

### **Traditional distribution channels in the hotel industry**

In the lodging industry, the primary traditional distribution channels are travel agents, global distribution systems (GDS), hotel front offices, and call centers (Laura, 2011).

**Travel agents.** Travel agents are one of the oldest and most widely used traditional distribution channels, acting as the intermediary between customers and room providers (Laura, 2011). Whenever a customer purchases a travel package from a travel agent, hotel rooms customarily have already been included in that package. Many customers may have information concerning certain types of hotel rooms, but few customers actually know in which hotel they will be accommodated. In this way, travel agents help hotels to sell rooms at a negotiated rate, while hotels pay them high commissions as benefits.

Travel agents always get room resources in different ways. Mostly, they have contracts with cooperating hotels, under which they can choose pre-selected rooms in certain price ranges. Another common method is through GDS, which is more accessible for buyers from all over the world. Some examples of travel agents are Israel Tour Connection in Israel, American Asia in Las Vegas, China International Travel Service, and tour companies such as Abercrombie & Kent and National Geography (Maidian News, 2010).

**GDS – Global Distribution System.** GDS is a type of computer reservations system or central reservation system (CRS), which is used to store and retrieve information and conduct transactions related to air travel, hotel booking, and car rental services (*The Economist*, 2012). At the very beginning, it was designed and operated only by airlines, and later extended for broader usage, such as by travel agencies.

The GDS originally consisted of a set of private networks listing only air flights for use by travel agents (Ader et al. 2000). With the boom of Internet computer usage, GDS systems have grown to serve a worldwide clientele, with nearly 500,000 access points offering a full array of travel services (Burns, 2000). Being on the GDS is requisite because the portal travel sites are usually the first places guests would like to search for their next vacations. The more visible the travel agents are on the Internet, the more reservations they will acquire. Since 2005, online bookings have reached \$100 billion every year. On an average rate, GDS produces nearly 30% of all hotel reservations (Valarie, 2012).

Currently there are four major GDS systems worldwide:

Amadeus: founded in 1987 by Air France and three other companies;

Galileo International: founded in 1993 by 11 major North American and European airlines; Sabre: founded in 1960s, with headquarter in Southlake, Texas;

Worldspan: founded in 1990, and currently owned by Delta Air Lines, Inc. Northwest Airlines, and American Airlines (Samipatra, 2002)

**Call Center.** A Call center is a central location phone bank, also called a central reservation office (Laura, 2011). Generally, call centers have the ability to place multiple reservations at the same time through central computer reservation systems (CRSs), and serve many different properties within the corporation. Airlines and car rental companies using centralized call centers have the advantage of providing consistent service and decreasing company costs, such as management and training. Multi-branded companies may have different call centers and, in some cases, different CRSs within their system, mostly due to mergers and acquisitions (Laura, 2011).

### **Emerging Distribution Channels**

With the boom of the Internet and wide usage of personal computers, people are more likely to plan their vacations online instead of visiting travel agencies in person. Physical travel agencies are not as attractive as before, since it is easier to find better travel deals just by surfing online. Relying on this trend, several new distribution channels have appeared and are growing fast. Most of these are operated online, such as OTAs, individual hotel websites, and mobile phones.

**OTAs – online travel agents.** OTA is an acronym for online travel agents, who have the same function as traditional physical travel agents, but the service is conveyed via the Internet. Unlike traditional travel agents, OTA specializes in offering vacation-planning sources and booking resources. Most OTA websites provide reviews from former customers. In this way, customers have a platform to communicate with each other and use others' comments for references. For one thing, such reviews on OTAs are essentially public customer evaluations

which can be viewed and influence the decisions of other potential customers. For another thing, those travel companies displayed on OTAs will always take those evaluations seriously, which will induce those companies to maintain the quality of their services and products in order to build positive reputations.

According to a report of American OTAs, in July 2006, approximately 70 million consumers researched travel information and made reservations using OTAs (Saks, 2006).

**Individual hotel websites.** Individual hotel websites are another current primary distribution channel. With the popularity of GDS in the hotel industry, third-party websites generate a high percentage of reservations. On one hand, it is a new channel for a hotel to expand its product, but, on the other hand, the third-party websites such as OTAs have stolen a big portion of market shares of individual hotel distributions. More and more hotel brands build their own websites and provide booking service on their home pages, which enables customers to be driven from OTAs to their own websites.

Additionally, the hotel's direct website is one of the most cost-effective and fast growing channels. Hotels can buy an online booking engine from specific companies which provide setting up, training, and maintenance by contracts, but at a cost of around several thousand dollars, depending on the size of the hotel. On the other hand, hotel direct websites are an effective way to do marketing. Hotel websites can not only give travelers an online shopping experience, but also can turn looks to books and, deliver real-time availability and rates for the hotels, while spicing up the experience with rich media photos of their beautiful facilities, multilingual property descriptions, maps, pop-up calendars, itinerary builders, promotions, as well as online add-on services for booking tee times, spa treatments, equipment, and other amenities.

Hotel chains increasingly use their own websites, in concert with other marketing and sales efforts, to drive hotel information delivery and online bookings. According to a 2010 study by Chris Anderson, 17.5% of demand and 20.2% of revenue were generated from individual hotels' direct websites (Anderson, 2011). Marriott reported that in 2002 over 75% of its online bookings came through its website and that the firm had invested over \$1 million in site improvements (Bill & Judy, 2003).

**Mobile phones.** No doubt the rise of smart phones is the most significant factor. Will increased use of mobile search for local businesses mean a surge of phone calls for hotels? The answer is yes. A recent study by BIA/Kelsey concluded that by the end of 2013 local businesses will be receiving three times the number of phone calls as they do currently because of the increase in mobile marketing and smart phone searches. The trend is emerging (Michael, 2012).

Over the last five years, mobile has become closely correlated to local. People are looking for a restaurant nearby, a hotel nearby. The Wyndham hotel group has dedicated numbers on its 13 mobile websites, with a dedicated number assigned to every brand. Finally, the increase in call-center volume has been noticeable (Keith, 2012). When you are on your desktop at home, the range of search subjects is broader; when you are on a mobile device, it is much more immediate. Hotel call volumes will rise significantly. Mobile phones will be a great source of business, though this may present issues on the logistical end. If such issues arise, hotels will need more staff to take calls and, the call center will need to be developed extensively (Harvet, 2012).

### **Review of call center in hotel industry**

#### **Review definition of call center**

Call centers are centralized offices used for the purpose of handling large volumes of customer requests by telephone. Call centers use computer science and technology to assist in the management of calls, supply of information (*Call Center Life*, 2011). In hotel industry, call centers usually manage incoming calls for room reservations, products supports, information inquiries, customer complaints, and other requests from outside parties. On the other side, call centers are also operated for outbound calls, for example, for telemarketing and customer evaluation requests.

A call center can also be defined as a customer contact center, or a customer interaction center. Through this central point, valuable customer information can be collected into the hotel's customer database, then managed and selected, and finally routed to the appropriate departments. Generally, the call center is the department responsible for the customer relationship management (CRM).

### **Review of the history of call centers**

Call centers, as we know them today, were originally generated from the Automatic Call Distributor created by the Rockwell Galaxy in 1973, which authorized Continental Airlines to launch a telephone booking system (*Call Center Life*, 2011). That is to say, call centers firstly served the hospitality industry as a distribution channel.

Technological advances brought a new business model for telephone sales. Aspect Telecommunication, a US call center company, distinguished between types of calls and connected them to specialized teams of agents. This activity efficiently shrinks the waiting time and enhances the ability of the call center to deal with large volume of incoming calls (*Call Center Life*, 2011).

The call center business has been on the rise since 1970, over 30 years. By 2003, the call center industry consisted of 5320 call center operations, employing 800,000 people, in the UK alone. Since 1995, the industry has grown by 250% (Call Center Life, 2011).

In early 2000, influenced by economic crisis and high labor costs, large companies began to transfer customer service departments overseas. Since then, offshore call centers have become more and more popular. India, the Philippines, and South Africa are three main offshore call center destinations.

### **Functions of the hotel call center**

Some people claim that hotel customer service is dead. We have all had the experience of calling customer service, which is operated by the call center, to ask for help, to complain, and to seek help with reservations just because of the complicated procedures involved in online booking. More than ever, however, the customer contact center is becoming for both hotels and customers. According to accumulated experiences and practices, a three-minute phone call can create a valuable customer relationship as well as break an existing loyal customer relationship, depending on the call (Michael, S., 2011).

Currently the hottest distribution channel in the hotel industry is via the Internet, and those electronic distribution channels make the reservation process more effective and responsive (Bill & Judy, 2003). Additionally, the hotel call center, as a traditional distribution channel, has been ignored gradually by the majority of hoteliers. However, the important functions of the customer contact center will never be replaced.

**Revenue booster.** Even though the call center is not the most cost effective distribution channel, it is an effective revenue-generating distribution channel. An effective distribution channel is determined not only by how many reservations are produced; single room rate, travel

length, and quantity of reservations will all influence the management team's final decision as to which distribution channel should be used (Sunmee & Sheryl, 2002).

Although processing reservations made over the Internet can be cheaper than processing those booked through the call center, considering booking length and rate, it cannot be claimed simply that online booking is more effective than booking by phone call. With an industry average cost for every transaction of \$1.29 by call and \$0.56 by online websites, usually, customers who make reservations online stay 2.6 days on the average, while bookers from call centers spend 4.3 days (*Call Center Forum*, 2012). Assuming the rate of online reservation is 10% lower than the regular price by phone, according to the formula of daily room rate times length of stay and then minus cost of the call center, and assuming a price of \$100 per night, revenue from one online booking transaction is about \$233, while revenue from one call center booking transaction is about \$428. Thus, in this combination of booking rate and length of stay, call centers are more profitable for hotels than online reserving. However, the most profitable mix of these factors varies depending on different hotel properties. Based on this example, the call center also can be a revenue booster.

**Call center customer segmentation.** In 1995, based on only 0.5% of all travel bookings, electronic bookings rose by almost 40% over the previous year and accounted for 26 million reservations (Daniel & Michael, D., 1998). However, a large number of reservations cannot absolutely make the same amount of profit for hotel properties. According to research on customer segmentation of travel bookers, their ages, education levels, and annual incomes are separately and negatively related to the online booking intentions.

It is natural to assume that consumers who book travel online are younger and have a higher education and income. However, higher income people may not actually book online.

Wealthy people may feel their time is too valuable to spend hunting around the internet for travel deals, and so they prefer to make reservations by call, which is more time-effective. Young people intend to spend more time online searching and online booking, but they always take shorter vacations than a high-education and high-income group of participants (Michael, C., 2010).

Hilton conducted a survey of Hilton Hhonor members and discovered that only 7% of its members had booked online, and over 50% of online bookers were first time guests (Daniel J. C. & Michael, D., 1998).

**Customer interaction.** The call center is also an important department which can reach customers directly, efficiently, and effectively. When a company fails to deliver an expected service, customers expect compensation for their loss, a speedy and convenient resolution, and courteous and respectful treatment (Anna & Daniel, J. M., 2003). When you encounter a problem in the booking process, will a computer offer you any feedback or compensation? Will the internet give you speedy and convenient resolution or treatment? The answer is no. On the contrary, if you have any problems during the online booking process, your first impulse is to call the customer contact center, since only by calling the customer service center can a customer receive the appropriate treatment and a speedy resolution.

The call center could be at the core of successful relationship-management strategies (Anna, 2003). The company in a study conducted by Welsend Call Center Company reported that, for all calls to their call center, 51% were for reservations concerns, 29% were for accommodations concerns, and 20% were for service concerns. The average number of nights spent at a company-affiliated property during the preceding 12 months was 6.8 nights, but online booking only generated an average number of 2.6 nights. Additionally, based on this

research, call center customer interaction can largely influence customers' intent to return. Pre-encounter return and satisfaction with problem handling both can link positively to customers' future purchase intent (Anna & Daniel, J. M., 2003).

The study also compared the guest's intentions to return before and after contact with the call-center, proving that dealing with the call center representative had a positive effect on customers' intentions to return, thus indicating the importance of the call center in the service recovery process and as an important distribution channel for creating and retaining loyal customers. So we can conclude that the call center is a crucial distribution channel, which can generate more long-term customers, who presumably would live longer and spending more than regular customers. Further, we can conclude that, by using the call center as a distribution channel, a hotel can obtain more loyal customers.

**Customer Data Collection.** Another function of the hotel call center is collecting and managing customer information. Ownership of consumer data turns to be a valuable issue in these days. Hoteliers concern about consumers' information because customer relationship management is a key point keeping valuable customers and generate profits. Likewise, companies will increasingly become concerned as access to their property data by third parties becomes more possible. Privacy and data security could be top issues among hoteliers (Richard, 1998).

## **Trends**

**Increasing hits of hotels' websites increase reservation calls.** To some extent, web-based reservations and searches, particularly those on hotel chains' own websites, can generate the number of direct calls for reservations. Evidence suggests that for every booking made online, a corresponding number of bookings are based on internet research but are made via a

call to a central reservation center (Bill, 2003). Based on interviews with eight senior hotel-chain executives in June 2002, up to 20% of customers who look at the chain's website will end up with calling the chain's reservation center to make a reservation (Bill, 2003). Moreover, according to consumer travel survey taken from online travelers in 2002 who had traveled via air and had used the Internet within the last 30 days, 55% of them ultimately purchased offline (Bill, 2003). Based on these interviews and this survey, therefore, while hotels and hotel chains are utilizing electronic distribution by transferring reservations from former online intermediaries to their own websites, the hotel also experience increasing sales from their call centers, since the callers have already checked information on the websites and then choose to make calls for bookings as opposed to information only calls.

#### **Increasing usage of mobile increase reservation calls.**

As with online hotel, airline and rental car mobile sites, hotel reservations made through mobile applications tend to have a shorter booking window and are often made for the same day. More people prefer to make a reservation by their smartphone apps, because in this way, they can choose a hotel by searching surrounding properties, viewing evaluations, and find the nearest available hotels. In this way, customers do not need to follow a fixed travel plan, but can decide where to accommodate on the way. Moreover, people choosing mobile apps to reserve regularly directly call hotels to make a reservation (Sheryl E, 2010).

### **Applications of the Call Center**

#### **Distribution channels in China**

**General situation.** The economic crisis in 2008 hit China's hotel industry badly. By relying on a different economic system framework, however, by 2010, China's hotel industry was gradually recovering. This recovery has been demonstrated in three ways: more domestic

hotel brands stepped into the market; developed budget hotel brands started to build their own middle-level brands; and international hotel groups switched investments on second-line cities.

(*China Hotel Weekly*, 2011)

Since 2011, China's hotel market has grown quickly. Between January and March 2011, 43 new star standard hotels opened with a total of 11,454 rooms available. According to related analyses in the hotel industry, the period between 2012 and 2017 could be another fast growing period for China's hotel industry.

**Current issues.** The conflict between direct distribution channels and third party distribution channels is the red-hot issue in the current hotel market in China. Hotels rely on the quantity of reservations from third party distribution channels, like OTAs, while they are also worry that too much dependence on their distribution capability will cause a loss of customers who would otherwise make reservations directly through the hotels.

In April 2010, Ctrip, one of the primary OTAs in China, was blamed of interfering with the hotel's ability to offer customers better prices in other distribution channels, when Ctrip issued that if its price was found to be higher than any of its competitors, it would pay three times the difference (Cao & Kong, 2010). From that point on, domestic budgeted hotel chains refused to accept that policy instead releasing contracts with Ctrip and standing ready to enhance their own direct distribution channels, such as their call centers, official websites, and front offices.

### **Advantages of hotel call centers**

Even though OTAs generate a larger quantity of reservations for domestic hotels, after subtracting the high commission and administration fees, the remaining profit is not particularly significant. Given the issues discussed above, it is time for domestic hotels to take action. To

some extent, developing hotel call centers as distribution channels is a good way to compete with the OTAs in market while building the hotel's own customer base.

**Increase market shares.** As mentioned above, call centers cost more than online booking per reservation, but considering the booking length and booking price, the call center can be a revenue booster. Additionally, Ctrip's recent policy of promising to pay three times the price difference for lower-priced bookings is significant, as it aims to show Ctrip's price is the lowest one on the market. This would encourage most potential customers to book from Ctrip, so that the hotels would have to pay high commissions to Ctrip to get more reservations.

Currently, 80% of the market share is taken by OTAs. The rest is limited for a large quantity of domestic hotels to survive (Wang, 2010). As a result, domestic hotels should try to find another way to compete with OTAs.

**Customer base.** By June 30, 2012, China's population was approximately 1.35 billion, 40% of which are Internet users (China Annual Population Statistics, 2012), with a world ranking of 13<sup>th</sup> in number, and 75% are mobile phone users (Reuters, 2012), almost reaching the global mobile phone users' proportion of 87%. Based on these statistics, the phone reservation market has substantial potential to grow and make profits.

As mentioned with regard to customer segmentation, the characteristics of these two customer groups are totally different, which is similar to the US market: online users spend more time on online searching, but fewer of them make the final reservation online than by phone. Phone customers spent less time on reserving by phone than customers reserving online, but those reservations were more profitable.

**Brand image.** Since 2000, budget hotel chains have become the main player in China's hotel market. In order to remain in primary position in the industry, many top budget hotels plan to build their own middle-level hotel brands.

According to Ji Qi, CEO of the Hanting hotel chain, Hanting has had a membership program for almost 10 years and boasts a large group of loyal customers. People who like to stay at Hanting always call to book directly, rather than searching for a better price online, because they believe Hanting will offer the best price to its members, regardless of any comparison to other providers. To make more profit, Hanting has already finished the first step—building its brand image. Then Hanting will be ready to expand, becoming the first budget hotel chain offering the first domestic high-end hotels. OTAs may bring new customers to experience Hanting, but Hanting has the ability to keep those customers and turn new customers into loyal customers (*Travel Daily News*, 2012).

**Payment issues.** The issue of payment is unique in China, since credit card crime is frequent. Over 90% of people do not like to expose their credit card information online, even on hotels' official websites. According to a survey of purchasing preference conducted by Qunar, which is one of highest-evaluated OTAs in China, 67% of the participants preferred making reservations by phone, and only 29% felt safe purchasing online only with paying by debit cards. Compare the payment types: when making reservations by phone, the customers just need to provide their membership information which already includes the payment information they used the last time. They will not be charged accommodation fee or deposits until they check in. First time bookers only need to provide their personal information, and select the option to provide payment information then or wait until the check-in date. However, with Internet booking, customers have to provide both personal and billing information before they even place their

reservations. Even if it is the hotel website, customers still worry about the security of the website, because it is possible that hackers may steal information from these two parties, or the website showing in front of customer is a 99% similar fake website. Therefore, one can conclude that booking by telephone is much safer than purchasing the reservations online.

### **Conclusion**

The literature review presented the general definition of hotel distribution channels and the important functions of the hotel call center as an effective distribution channel serving within China's hotel industry. In addition, based on the study of the current situation of China's hotel industry, the reasons why using call centers as a distribution channel is effective for Chinese hotels will help readers to completely understand the necessary of using hotel call centers as a distribution channel. Moreover, this part presents many existing examples of current successful hotel call center designs, which can be a useful reference for Chinese hoteliers before considering utilizing call centers as a distribution channel.

### **Part III**

#### **Introduction**

Unlike the U.S. hotel industry where call centers as a distribution channel emerged far before the Internet, China's hotel industry boomed simultaneously with the rapid expansion of the Internet. As a result, the major distribution channel for Chinese hotels is online distribution. However, after experiencing fierce conflicts with OTAs for and given the importance of call centers, more domestic hotel chains plan to build their own call centers or outsource this service. However, whether building hotel-owned call centers or outsourcing call centers to professional call center providers, it is crucial to clarify how the call center can satisfy the hotel's demands, particularly in an environment which is different from the U.S. hotel market, so direct application of U.S. experience does not appear to be feasible.

This paper provides readers a comprehensive introduction of hotel call centers as a distribution channel within the hospitality industry. First, by relying on literature reviews of development of hotel distribution channels in the U.S., this paper identifies the advantages and functions of each popular distribution channel. Then the paper provides a general study of the hotel call center and its early applications in the U.S., which provided references for its applications in China. Finally, the last part of the literature review analyzes the general situation of China's hotel market and the main issues pushing Chinese hoteliers to apply the call center principle in China's current hotel market.

Part three of this paper identifies some main considerations for implementing the call center as a distribution channel in the Chinese hotel market particularly as a guideline for hospitality management in building hotel-owned call centers or outsourcing call centers to professional providers.

### **Guidelines—characteristics of a hotel call center**

Without complete knowledge of the call center operation, management possibly makes a mistake by establishing cost reduction as the primary objective. However, the most important consideration should not just be the cost; more valuable factors should be taken into account.

#### **Employee**

The first important thing to consider when hoteliers choose an outsourced call center is the specialties of agents; since in the hotel industry, the performance of a call center agent can directly generate either a positive customer interaction or a negative one, which can directly affect hotels' brand image and customers' final decisions.

As a result, call center agents are required to have the communication skills, selling skills, and information capture skills. Within a few minutes, without facing to customers, call center agents should have the ability to get customer information as much as possible, and based on that information to provide a good option, and even do upsell. Moreover, in this process, call center agents should have the ability to distribute the hotel culture and the best customer service, in which way positive customer relationship can be built.

#### **Multi-channel accessibility**

Communication methods are changing at a blistering pace. With new communication tools developing every day, in order to survive in this rapidly-growing industry, call centers' main functions should not be limited to simply receiving incoming calls. Hotel call centers must be able to match customers' growing demands and preferences.

The telephone is still the most common way to interact with customers, however, text messages, chatting tool messages, web chats, emails, social media comments, and mobile app inquiries are all being used more and more frequently. As a result, making sure call centers are

able to satisfy growing customer demands, to handle multi-channel communication accessibility, and provide immediate response are very important.

Given this fierce competition, hotels consider customer interaction and customer experience are most important in the process of realizing value. Take the mobile and social media as examples. As mentioned in the second part of this paper, China is now the largest mobile market in the world. Mobile users make up 75% of the Chinese population over 1 billion mobile subscribers in total. According to China's Ministry of Industry and Information Technology, the total number of mobile phone subscribers in the country is growing at a rate of 1.18% per month, China's smart phone market has grown as substantially as 81% over the years from 2009-2011, compared to only 5% growth in the U.S. over the same period, this huge portion of new-born users cannot be neglected (Michael, K., 2012).

Currently, more than half of the hotel brands have their own mobile apps (Sina, 2011). In 2011, Intercontinental Hotel Group reported reservations via mobile app contributed over 1.48 billion USD all over the world (IGH news, 2011). And this number rises every month. From the CEO of Mitu, which is a Chinese Technical and Development Company focusing on reservation mobile apps, reservations only via apps from their company contributed 9000 rooms in just the last month. At this developing rate, mobile apps will probably catch up with OTAs in reservation quantities, especially since smartphones make multi-way communication possible. According to a U.S. study in 2009, 89% of smartphone users use their phones throughout the day, 92% use text messages, 84% use Internet browsing and chatting, 76% use emails, and 59% use social networking (Smartphone, 2009). All of these different areas of communication are growing fast with the popularity of smart phones. Focus on phone calls alone, however, obviously will not be enough to satisfy customers' growing demands. As a result, when hoteliers are considering

building or outsourcing hotel call centers, multi-channel accessibility is a very important factor to be considered (Go-Globe News, 2012).

### **The ACD system & the IVR system**

ACD (Automatic Call Distribution system) is a widely used system distributing incoming calls to a specific group of terminals used by call center agents. ACD's primary task is exchanging calls between different departments, queuing incoming calls, and routing incoming calls, and it often can be found in handling large volumes of calls from people who do not need to talk to a specific person (ACD, Wiki, 2012).

IVR (Interactive Voice Response) allows a computer to interact with customers via phone keypad or speech recognition. Application of IVR helps agencies to handle a large volume of incoming calls and save customers' waiting time. Or we can say, IVR is a kind of Robot, who can replace real agencies to serve customers- (Khasnabish, 2003).

Both ACD and IVR are designed to help agencies to handle large volumes of incoming calls, specify customers' demands, and reduce customers' waiting time. At the same time, they enhance the customer's self-service experience and increase the number of customers being served during a specific period. However, based on characteristics of China's hotel market as well as the preferences and demands of Chinese customers, ACD and IVR system designations and experiences cannot be borrowed directly from the U,S,. That requires China's hotel call center designers to rely on Chinese specialties. According to recent consumer reports by the Beijing Budget Hotel Chain Organization, over 87% of callers have hung up before their issues have been addressed. Seventy percent of these participants were annoyed by automated IVR voice reading scripts, and not being able to get a real person to answer. More than 67% reported they could not find the proper route to get the options for final problem solutions forcing them to

repeat their calls. In these situations, ACD and IVR created negative customer interactions, which not only did not solve customer complaints in the first place, but kicked out potential customers who originally wanted to make reservations. IVR study participant Yuan Liang, asks, “I spend half an hour on choosing options and being on hold, why don’t I choose online booking?” (*Call Center Forum*, 2009).

With the current pace of living and speedy life styles, people have already lost their patience with waiting in line. As a result, hoteliers need to consider how many levels of ACD and IVR usage are applicable and which can balance the large volume of incoming calls with customers’ tolerance for waiting time. HomeINN, one of the biggest budget hotel chains, designed their call center system to require all incoming calls to be answered by live agents within one minute on hold. Their IVR levels are within three. According to the recent survey of members of HomeINN, 88.3% customers satisfied with the current ACD system. The purpose of the customer choosing call center for reservations is to save time and speak to a live agent, who can better customize customer requirements. If the call center only can provide an automatic reply with a half-hour wait, why not book online?

### **Technical skills**

Hotel call center solutions are different from general business call center solutions. Hotel call centers have higher requirements for agents create a positive experience, which generates naturally during the process of customer interactions. In China particularly, hotel call centers need to pay more attention to caring for customers. This part provides two successful examples of existing hotel call center solutions.

**Waiting time.** HomeINN hotel chain: The HomeINN hotel chain is the first domestic budget hotel chain which built its own call center system. HomeINN's call center system is one of the best hotel-owned call centers in China's hotel industry.

HomeINN cooperated with Avaya, a Taiwanese professional call center technical company to create a unique system called EWT (Estimated Waiting Time System). This system is able to estimate the queue time for each individual (Avaya, 2001).

Customers will know how long they need to hold on the line and then decide whether to wait or not. A lengthy wait time may not necessarily test customers' patience, but an unknown long waiting time almost always will. In this case, EWT effectively reduced the number of waiting customers and, to some extent, increased the service quality of the agents.

**Skill superiorities.** ACD and IVR systems can be designed by hotels' different requirements. Better service can be made possibly by reducing holding time as well as by providing special services. HomeINN's call center solution has another unique solution: skill superiority (Avaya, 2001).

The system allocates different skills depending on the categories of services. Then each agent are allocated more than one skill superiority, such as reservation, customer complaints, technical support, hotel information inquires, membership information, post-purchase consultancies, and so on. Each agent's superiority can be graded on different levels. For example, when a customer calls in for reservation, this call will be transferred to the available agent with the highest reservation skill superiority.

**Multi-language.** Additionally, HomeINN has a multi-language agents group, offering support in Mandarin and Cantonese, which makes it possible to serve customers from all over China. Moreover, this function fixed the shortage of IVR of recognition of individual caller's

dialects. According to a survey from Welsend call center in 2010, over 30% of incoming callers speak Cantonese. As a result, providing multi-language service is extremely crucial in China's hotel market (Welsend, 2010).

### **Conclusion**

The guidelines above are very important for Chinese hoteliers before considering utilizing call centers as a new distribution channel in China. First, the guidelines provide readers a better understanding of the significance of a hotel call center. Second, the guidelines give Chinese hoteliers more ideas of the best practice of using call centers to effectively distribute in such a complex Chinese hotel market. Finally, it gives readers suggestions before they have a hotel call center as a distribution channel.

### **Recommendation**

The recommendation for further research is to carry out considerations of characteristics of call centers as a distribution channel in China within practical situation. With the increase of labor costs in China, the conflicts between high costs of live agents and customer satisfactions of interacting with ACD system and IVR system need to take into consideration.

The other direction for further study can be effective call center system designs. With regarding to existing problems of customer interactions with hotel call centers, how to design a call center system to maximize the customer satisfaction turns to be important in the future.

### **Limitation**

Not all of the characteristics listed in the guidelines are applicable for every hotel property in China. Considering the diversification of China's hotel industry, different categories of hotels operate by different structures. For example, government-owned hotels are sub-department serving for government, which are only available for governors and their families.

Therefore, government-owned hotels have a special customer base and do not need to have a call center to expand their distribution channels.

As a result, when considering having a call center as a distribution channel, Chinese hoteliers should clarify the situation, characteristics, demand, and budget of that hotel and make sure have a detailed plan.

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