

# The Role of the Internet in the SME Hotel Sector in Austria

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**Abstract.** The fact that information and communication technology (ICT) has a significant impact on industries and single organizations is an already established and well researched issue. Markets are changing – becoming faster, bigger, more standardized as well as segmented, and more competitive. ICT has a considerable impact on nearly all areas of a company's activities, especially for companies operating in information intensive industries such as the travel and tourism industry. This paper concentrates on the implications of ICT for the hotel sector in Austria and more specifically for the small and medium sector (SME) section of this market. This paper explores the major threats and opportunities for hotels by evaluating our framework for competitive advantage in eBusiness through an expert survey within the Austrian travel and tourism industry.

## 1 Introduction

ICT forces companies to find new ways to expand the markets in which they compete, to attract and retain customers by tailoring products and services to their needs, and to restructure their business strategy to gain competitive advantage. This affects every aspect of how business is conducted, changing internal processes as well as external relationships, modifying and restructuring entire economic sectors [8], [10], [11]. The Internet and especially the Web is one of the main driving forces for these new developments by providing new powerful tools and possibilities of doing business. For the accommodation sectors it is a perfect platform to bring information about their products to the customers all over the world, in a direct, cost minimizing, and time effective way.

The accommodation sector consists of many different forms of sleeping and hospitality facilities. Hotels are the most widely known form of overnight accommodation. Hotels can be divided into two main categories, identified by their size, i.e. into large-sized tourism enterprises (LTE) and small and medium sized tourism enterprises (SMTE). More than 90% of the accommodation establishments

worldwide are small, independent, flexible, seasonal, and family managed [3], [4]. This is evident in several European countries, especially in Austria. The SME businesses tend to be owner managed, are unlikely to be part of a chain or marketing consortium, and are traditional and conservative in operations. Our research focuses on these SME accommodation companies, investigating their ability to gain competitive advantage by using the Internet.

Both industry cost structure and the perishable nature of the product makes effective distribution particularly important in the hotel sector. A hotel room left unsold on any particular night cannot be stored and subsequently offered to the customer at a later date. Thus, selling each room each night at an optimum price is critical to a hotel's long-term success. To achieve this, hotel companies use a variety of different distribution channels to help selling their product. While direct sales are most common, extensive use is normally made of a variety of intermediaries, including travel agents, tour operators, marketing consortia and representative companies.

The importance of electronic distribution channels has grown significantly in recent years. The Internet has dramatically changed the way people communicate, search information, make decisions, and particularly the way in which they buy goods and services. Travel products in particular have proven to be some of the most suitable ones to sale online. The typical profile of an Internet user – affluent, frequent travelers who spend above average on leisure and entertainment – is an attractive market for travel suppliers. Furthermore, from a consumer perspective, in an increasingly wired world, purchasing travel online has become faster, easier and more convenient than contacting a travel agent or telephoning a supplier directly.

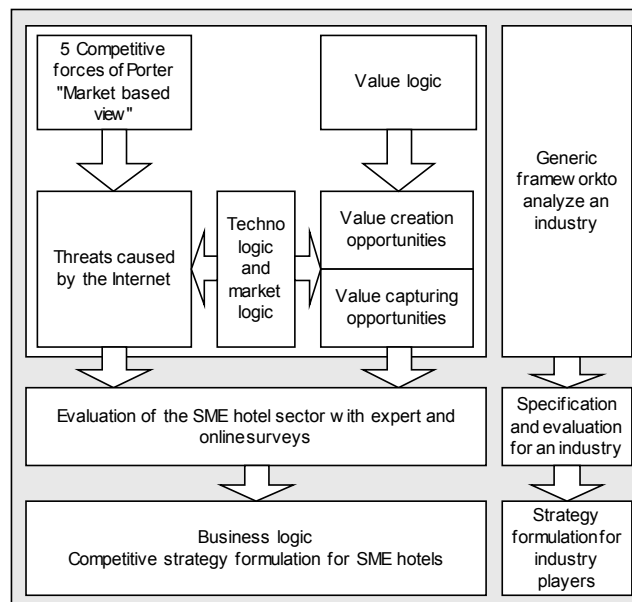
In our work the Internet is proposed as a potential strategic tool for competitive advantage for SME hotels in Austria. Based on our already defined framework for competitive advantage in eBusiness [5] we identify several threats and opportunities for the hotel sector. These are evaluated by an expert survey with participants from the Austrian travel and tourism industry. Our future work will validate these findings for the hotel sector by conducting an online survey within the accommodation industry in Austria.

## **2 Methodology**

This study is based on a theoretical framework for the formulation and implementation of a competitive strategy by extending Michael Porter's *Model of Competitive Advantage* [6], [8] and using the *Logics of Value* concept, defined by Hans Akkermans [1]. The framework will be used to find out where and how the Internet as a new communication and information technology influences the SME hotel sector in Austria. A company has to focus on two major parts: the market view of the industry the firm operates on and the logic view (the techno logic, the market logic, and the business logic). By analyzing how the techno and market logic influence the 5 competitive forces we define several threats for the industry. On the other hand, these two logics provide opportunities for value creation and value capturing, which can be used to counteract the threats within the business logic of a

specific SME hotel and to gain competitive advantage. Figure 1 illustrates our general framework for a competitive strategy. The framework includes the following major steps:

- In the first step we use the strategic concept of the five competitive forces [6], [8] to analyze an industry. This market-based view provides us with an overview of the developments and threats within an industry caused by ICT, in particular by the Internet.
- To counteract these threats of the Internet and to achieve competitive advantage, a firm has to develop a strategy by using the opportunities of the Internet. This is the subject of the second step of our framework. The basic unit of competitive advantage is the discrete activity, which adds, creates, or captures value to a product or service. In this part we define several opportunities and activities a company can use to gain a competitive position. This is primarily based on the *Logics of Value* defined by Akkermans [1].
- The threats and opportunities are identified for the accommodation sector in Austria and evaluated by an expert survey. Additionally, to get a broad picture of the use of the Internet as a strategic tool in the hotel sector we will also conduct an online survey within the industry.
- Finally, the results will provide us with a detailed picture of the use of the Internet within the Austrian SME hotel sector from the view of industry experts and the view of the hotels. By combining this data with our qualitative research about the opportunities of the Internet we will offer recommendations for a competitive strategy.



**Fig. 1.** Framework for Competitive Advantage in eBusiness

### **3 Design of the Expert Survey**

The expert survey was designed as an online survey. To achieve a high response rate, we decided to formulate only 9 questions, as most of the contacted persons are in high management positions and very limited on time. The following topics for questions were chosen: identifying opportunities and threats for the tourism market players, identifying the threats caused by the Internet to hotels, identifying the opportunities provided by the Internet for hotels, and identifying the present use of the Internet.

110 questionnaires were sent by email to managers in or associated with the travel sector, and 22 valid responses were returned. This represents a participation rate of 20%. The respondents were: 2 public organizations, 11 IT&T (information technology and tourism) companies, 3 marketing groups, 1 consulting company, 1 travel agent, 1 tourism office, 1 scientific institution, 1 lobbying organization. Regarding the management position within the organization about 50% represent the business leader or head of the company and the other 50% can be allocated to middle management positions.

### **4 Evaluation of Survey Results**

#### **4.1 Identifying Opportunities and Threats for the Tourism Market Players**

The first question of the survey investigates which market players of the travel and tourism industry are confronted with growing threats and which are provided with new opportunities by the Internet. The experts were asked to evaluate for each player the degree of opportunities or threats caused by the Internet. For each player they had to assign a number between 1 and 7, where 1 represents strong opportunities and 7 strong threats. This question aims to illustrate how the experts see the position of the different players of the travel and tourism industry in general, and in particular how the role of the hotel sector is seen compared to the other players. 11 different players of the travel and tourism industry were identified for this question. As illustrated in Fig. 2 the experts regard airlines ( $\bar{x} = 1.45$ ) as those organizations with the largest opportunities provided by the Internet. IT&T companies, hotel chains, and hotels with more than 50 beds are also very well rated with a score smaller than 2. Hotel with less than 50 beds are rated with an average of 2.05, thus their opportunities are also seen as strong and above average. Local/regional tourist boards are rated with a score above average of 2.39.

The only players which are confronted with stronger threats than opportunities are the travel agents, which get a rating of 4.59 from the experts. The figure also illustrates very well that the situation for intermediaries such as travel agents, CRS/GDS and tour operators is seen as more critical than for suppliers. Especially the role of the larger suppliers such as airlines and hotel chains can be seen as very strong and IT&T companies as new players in the market have also good opportunities provided by the Internet. In general, an average rating of 2.39 sees the travel and tourism industry in a position of good opportunities.

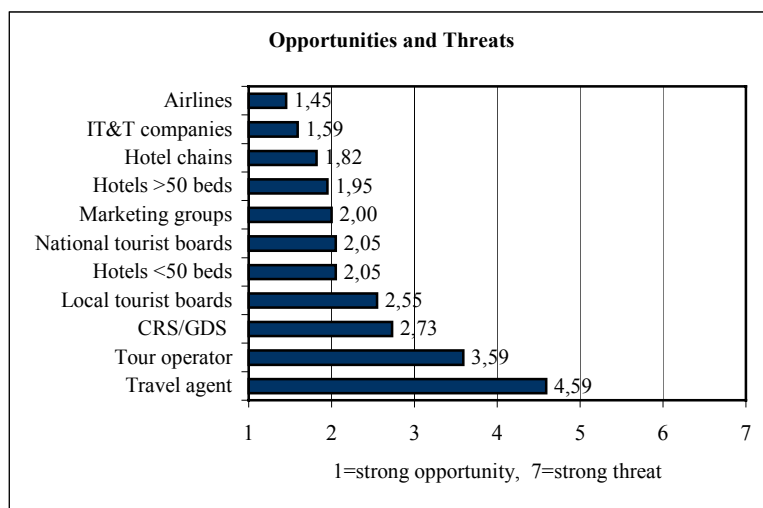


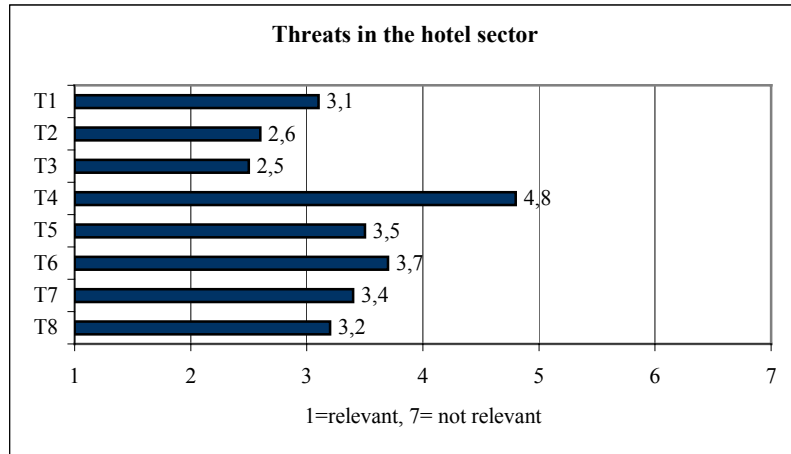
Fig. 2. Opportunities and threats for the tourism industry players

#### 4.2 Identifying the Threats for Hotels Caused by the Internet

We used the list of threats identified by Gratzner [5] and formulated 8 statements (see Table 1). The experts were asked to evaluate each statement by assigning a number between 1 and 7, where 1 indicates that the statement is relevant for the hotel sector and 7 that this statement is not relevant. The experts rated the threats with a general average of 3.4 (see Fig. 3). All statements, except statement  $T_4$ ,  $T_5$  and  $T_6$ , were rated above average and regarded as relevant. Statement  $T_4$  ( $\bar{x} = 4.8$ ) is seen as the least important threat for the hotel sector.

Table 1. Threats caused by the Internet

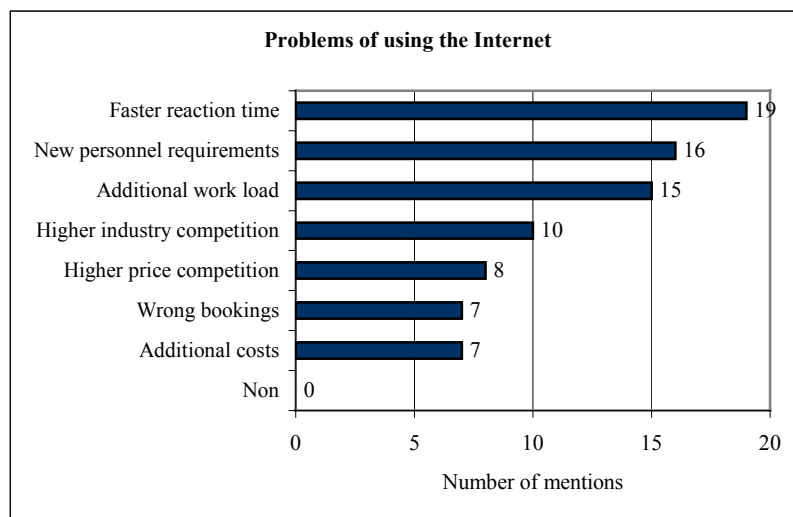
$T_n$	Statements « Threats »
$T_1$	The Internet reduces the entry barriers for potential new entrants, thus new hotels can appear on the market.
$T_2$	The reduced switching costs of buyers increase also the power of the buyers. Consumers can easily book at another hotel.
$T_3$	The Internet is a possible instrument to bypass wholesale or retail channels.
$T_4$	The Internet offers new possibilities and instruments to meet customer needs by offering new products and services, which could substitute existing ones.
$T_5$	The Internet opens the distribution channels for new market players (reintermediation). Hotels have to cooperate with these new partners.
$T_6$	The Internet brings many more hotels into competition with one another by expanding geographic markets and reduced entry barriers, it can increase the pressure for price discounting.
$T_7$	The Internet offers new possibilities and instruments to meet customer needs, thus the rivalry among existing companies within an industry can increase (e.g. if one hotel offers a virtual room, all others have to do so).
$T_8$	The customer can easily compare different prices and gain knowledge about products, thus the price becomes the most important decision criterion.



**Fig. 3.** Relevance of the different threats

The statements  $T_3$  ( $\bar{x} = 2.5$ ) and  $T_2$  ( $\bar{x} = 2.6$ ) received the highest rating as possible threats. This indicates that the most important threats are seen in the changes of the retail and distribution channels. Hotels which are ignoring the new channels and possibilities are confronted with increasing threats. This is also indicated by the reduced switching costs of the buyers. By the use of the Internet the consumer can easily book at another hotel.

Besides these more market view orientated statements we also formulated a question where the experts had to rate 8 different problems the Internet causes to hotels in their daily work. Out of these 8 problems the experts had to identify the 4 most important ones (see Fig. 4).



**Fig. 4.** Problems of using the Internet

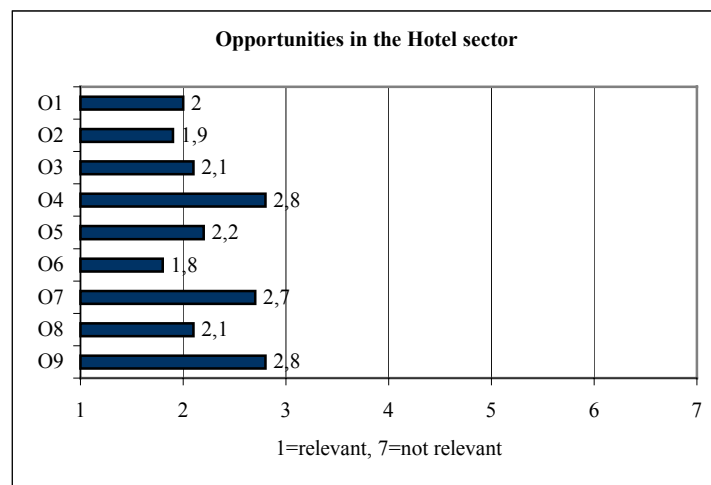
The three most important problems according to the experts are: faster reaction time, new personnel requirements, and additional workload. All three statements can be seen as an indication for organizational challenges within the hotel and the need for the company to adapt its daily work.

### 4.3 Identifying the Opportunities for Hotels Provided by the Internet

We used the opportunities identified by Gratzler [5] and formulated 9 statements (see Table 2). The experts were asked to evaluate each opportunity by assigning a number between 1 and 7, where 1 indicates that the opportunity is relevant for the hotel sector and 7 that it is not relevant (see Fig. 5).

**Table 2.** Opportunities of the Internet

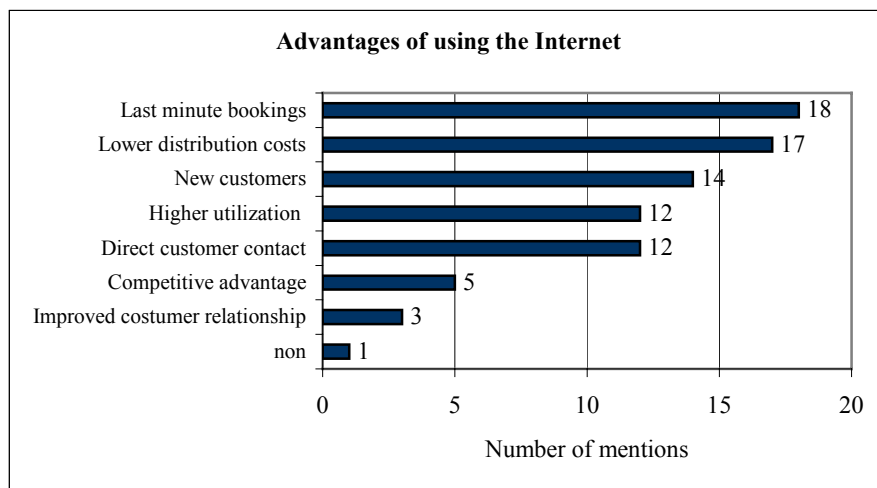
O <sub>n</sub>	Statements « Opportunities »
O <sub>1</sub>	By using the Internet, hotels can use product bundling to provide new offers for their customers.
O <sub>2</sub>	By using the Internet, hotels can provide special niche products for customers.
O <sub>3</sub>	Hotels can use the Internet for personalized products and services.
O <sub>4</sub>	The Internet offers possibilities for dynamic pricing.
O <sub>5</sub>	The Internet offers new sales possibilities by using revenue sharing and affiliate programs.
O <sub>6</sub>	By using the Internet, hotels can contact their customers directly, intermediaries like travel agents are bypassed.
O <sub>7</sub>	By using the Internet hotels can act as new intermediaries.
O <sub>8</sub>	By using Web and data mining technologies, hotels can capture additional information about their customers.
O <sub>9</sub>	By conducting online surveys, hotel can capture additional information about their customers and potential customers.



**Fig. 5.** Relevance of the different opportunities

The average rating for the relevance of all mentioned opportunities is very high with a score of 2.3, which shows that all statements are identified as relevant. The lowest rating is  $\bar{x} = 2.8$  for the statements  $O_9$  and  $O_4$ . As the most important opportunities the experts identified  $O_6$  and  $O_2$ .  $O_6$  points to the importance of the Internet as a distribution channel and the possibility for hotels to bypass the existing ones. This is also underlined by the results of the first question, where the intermediaries are rated as those players who have less opportunities than the others.  $O_2$  illustrates the chance for hotels to address niche products and the individual customer.

Additionally, we also included a question where the experts had to rate 8 choices for possible advantages of the Internet for the hotel sector. The experts had to select the 4 most important advantages from their point of view. As illustrated in Fig. 6 the two most important advantages of the Internet identified by the experts are: last minute bookings and lower distribution costs, these can be associated with an increased organizational level of a hotel. Also very important are activities and applications which support the more strategic part of hotel work. These advantages were: new customers, higher utilization, and direct customer contact.



**Fig. 6.** Advantages of using the Internet

#### 4.4 Identifying the Present Use of the Internet

We included two questions regarding the present use of the Internet into the expert survey. The first question described 12 different applications of the Internet, which hotels can use for their daily business. We asked the experts to identify those services which the hotels already use extensively for their business (unlimited number of answers). The results (see Fig. 7) show that the following services and applications of the Internet are seen as the most important ones: homepage, email, and online reservation. Services like online booking, newsletter, and last minute offers are considered as only partly in use, and personalization activities, online surveys, or banner and online promotion are thought of being not used at all.



We also formulated a question to evaluate the importance of the Internet for the product distribution of a hotel. To investigate the importance of the different channels we asked the experts to rate 13 different distribution channels. As the most important channel the experts identified “personnel recommendation” followed by the hotel homepage. Internet reservations systems, tourist travel agents and tour operators are considered as less important. Surprisingly, local and regional tourist boards are thought of being less important compared with the Austrian national tourist board, which the experts rated as very relevant.

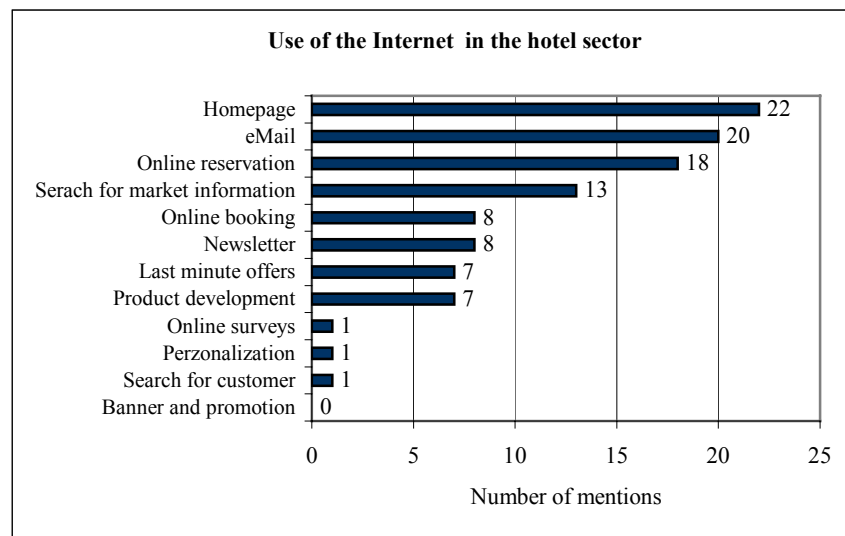


Fig. 7. The present use of the different services of the Internet

## 5 Conclusion and Future Work

The purpose of this study is to explain the role of the Internet for hotels and similar accommodation facilities from the point of view of industry experts. The experts identified the hotel sector as one of those players with large opportunities provided by the Internet. Hotels with more than 50 beds and hotel chains seem to be in a better position than SME hotels with less than 50 beds. In fact, larger hotels and hotel chains have always had a greater need of ICT and have already a higher level of ICT usage.

However, the Internet can be seen as a powerful instrument for SME hotels to overcome this ICT disadvantage. By using the Internet, hotels can contact their customers directly, intermediaries like travel agents are bypassed, and SME hotels which have had no possibility to use distribution channels yet, can use the Internet as an additional and new channel. Another opportunity can be seen by using the Internet to distribute niche products and address the individual customer. This is also evident as the experts have identified the changes of the retail and distribution channels as the most important threat for hotels, and have rated the homepage as the second most important distribution channel for hotels in Austria. SME hotels cannot afford to

ignore the importance of the Internet. It can be seen as one of the largest threats that SMEs failing to adapt their Internet presence and therefore being unavailable in the marketplace will be inaccessible to customers and intermediaries.

As identified by the experts, the most evident problems and threats for the hotels are: the faster reaction time, new personnel requirements, and the additional workload. These are all organizational problems; the ability to handle these problems will be a very important success factor to gain competitive advantage by using the Internet. However, we identified also related advantages of using the Internet: last minute bookings and lower distribution costs, which are also associated with a more efficient organization a hotel. We consider it an essential success factor for a hotel to create organizational structures, such as defining responsible persons or specific business processes for the introduction of new Internet technologies. The results of the expert survey also illustrate that especially services like homepage, email, and reservation activities are used extensively. More dynamic services like online booking, newsletters, or personalization tools are used less or not at all, up to now.

In the next step of our research we will carry out an online survey with Austrian hotels to evaluate the use of the Internet and the opportunities and problems from their point of view. We will compare the results of this study with the results of the expert survey. This will provide us with a broad picture of the awareness of hotels regarding the use the Internet for their business activities. Finally, we will identify the strengths and weaknesses and postulate possible recommendations for decision makers within this sector in Austria.

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