

A business model approach towards understanding the daily deals in internet distribution systems

Abstract

The business model approach is making a slow, but steady footprint in tourism research, and can offer a fresh perspective and a viable level-of-analysis for broader networks of internet distribution systems. Among those, the researchers have devoted limited attention to studying the daily deal providers and their position next to the online travel agencies. More importantly, the daily deal providers developed a unique business model whose characteristics, contrary to early predictions, enabled them to proliferate post-recession and maintain their position. The current study uses the business model approach to observe the original dimensions and business model elements, to identify distinct characteristics of generic and niche daily deal providers, and to benchmark them against the established online travel agencies. The business model approach enhances the understanding of the overlooked niche daily-deal providers in internet distribution systems. Further, the paper provides a comparison of the distinct business model characteristics in internet distribution systems to help facilitate the formulation of a unique value proposition for each of them. Ultimately, the authors acknowledge limited possibilities for cooperation between the providers and discuss substantive directions of daily deal and internet distribution systems business model transformations of the future.

1 Introduction

Several tourism-related online businesses, usually known as internet distribution systems (IDS), have been increasingly used by hotels, with their sales accounting for over 50 % of total global hotel room sales (Bui et al., 2015; Phocuswright, 2016). The online environment is characterised by adaptability to market changes and constant new player arrivals, operating with new, or continuously evolving business models (BMs). In the context of the IDS one of the newer BMs which emerged post the late 2000s Recession, are Daily Deal (DD) websites, also referred to as Flash Sales, Private Sales, Online Coupons or Flash Deals. Companies using this BM successfully combine advertising opportunities for businesses with significant discounts to customers, and rely on social media to facilitate their sales. The early, generic DD providers, such as Groupon and LivingSocial, originally traded mostly in goods but quickly added services to include hotel inventory (Green and LoManno, 2012). Currently, many of the specialised, niche DD providers, such as Voyage Privé and Secret Escapes, are exclusively focused around selling hotels and travel, and their BMs are among the fastest growing in the industry (CNBC, 2018).

Out of the DD body of academic work, the niche DD BMs remain least researched and hence remain without a clear distinction from the general DD BMs. In light of this, the current study represents an initial attempt to identify how unique characteristics of the two distinct DD BMs evolved throughout time. More specifically, the goal is to uncover the DD BM dimensions and elements, which allowed the DD providers to proliferate mid- and post-recession, respectively. The paper aims to benchmark the two distinct DDs BMs against the dominant BM in IDS - the OTA BM. Ultimately, the authors aim to suggest how the DD

BMs should (re)-position to clearly communicate their value and reinforce their position next to the OTAs among the plethora of IDS in the future.

Two observations support the use of a BM approach. First, as Reinhold et al. (2017, p. 18) note *“the literature on business models in tourism is still thin and spread across infrequently connected academic groups. To move the study of BMs in tourism forward, researchers need to understand and operationalise the BM concept in ways that help connect research findings across different areas of expertise.”* Second, most of the empirical studies dealing with DDs in tourism are based on the generic DDs (e.g., Groupon) and make no acknowledgement of the tourism-focused niche DD providers (e.g. Secret Escapes). Nevertheless, Niche DDs offer a significantly different value proposition for hotels (Minor, 2017; Tomat et al., 2019) and established themselves as a ‘go-to’ platform for shopping discounted travel products and thus positioned themselves among the most popular IDS (Mintel, 2018).

The paper is structured as follows. Section 2 provides a literature review on the BM concept, IDS, OTAs, and reviews the origins and nature of DDs and DD BMs; followed by an introduction to a BM approach. Section 3 explains the methodology. Section 4 provides analysis and key findings. Lastly, in section 5, the authors synthesise the main findings from the analysis and provide substantive directions for the future development of the DD BMs among the IDS.

2 Literature review

The Business Model Concept

While it seems clear that ‘every business has a business model’ (DaSilva and Trkman, 2014), academic attention over BMs in IDS is rather recent. The BM gained its importance as an additional level of analysis between strategy and tactics (Lecocq et al., 2010) and provided strategy theorists with a new vantage point for observing how organisations create, capture, deliver, and appropriate value for their customers and various other stakeholders. In addition to representing an activity system (Zott et al., 2011), a BM and its elements depict how organisations monetise value-related activities (Teece, 2010). The rise in the increasing use of a BM results from its ability to provide a ‘common ground’ for a growing number of stakeholders in broader organisational networks. By providing a universal language, the stakeholders have a clearer idea of conceptual representations of how organisations work (Massa, Afuah, and Tucci, 2017) and can communicate suggested modifications in business more efficiently.

However, as the use of the BM concept grows with the current lack of consensus on what a BM is (Wirtz et al., 2016), researchers call for more "salience" in the development of BM design options (Teece, 2015, 2018). Although, the attractiveness of a BM spans from its ability to be applied to different ecosystems, industries and organisations; more attention should be devoted to examinations as to how a change in a particular BM element or dimension affects other elements (Teece, 2018). The present research focuses on BM primary dimensions (Teece, 2010) of DD providers and it partially draws on Osterwalder’s (2004) BM ontology and utilises the conceptual framework for an examination of e-businesses (Gassman et al., 2013). The selection of both was made after carefully examining the plethora of BM design options or ‘ontologies’ (see, e.g., Gassman et al., 2014; Massa et al., 2017; Osterwalder, 2004) and adjusted in a way for it to be particularly suited for e-businesses and IDS research.

Specifically, in line with Gassman et al. (2013), the proposed BM approach aims to investigate four areas: who, what, how and value. First, the paper investigates the target customers and IDS (*Who?*). Identifying the target customers and understanding their needs is essential for the long-term success of every BM, including the DD.

Second, the authors ascertain the value of DD providers for both customers and hoteliers (*What?*). To understand what customers and hoteliers value is crucial in developing and communicating the value proposition of a particular BM in IDS. More importantly, a uniquely defined value proposition allows for distinguishing between the BMs in IDS and can, therefore, represent a source of competitive advantage.

Third, investigations focus on how the hoteliers and customers' notion of value dictates collaboration and terms and conditions (*How?*). The essence of the success lies in key partners, namely hoteliers, who supply the DD providers with the inventory and, more importantly, co-create palatable offerings' repertoire. Also, the current study acknowledges some of the mergers and acquisitions as a result of increasing reliance on and importance of key partners. Notwithstanding the choice of a distribution channel, customers increasingly demand comprehensive offers that include the products and services from all partners. Distribution channels are, however, of crucial importance for reaching the target customers and should be carefully examined concerning overall marketing strategy (Rosselló & Riera, 2012).

Forth, since the notion of the value is a result of activities and processes carried out from a salient orchestration of the BM elements (Magretta, 2002), the authors investigate the

financial side of a BM (i.e. *Value*). Specifically, the study at hand looks into the revenue mechanisms, which allow for the generation of incomes and salient commission-rate schemes for the DD providers among the different IDS. The authors, thus, focus on examining value proposition, revenue stream, key partners, distribution channels, and target customers for each of the observed BM. Table 1 provides definitions of those BM elements.

[Insert Table 1: Observed BM elements]

Internet Distribution Systems

IDS are defined by the paths by which hotels communicate with their audiences and sell their products and services (Huang et al., 2009); thus, IDS may have different roles or functions, depending on specific situations (Beritelli and Schegg, 2016). Contrary to the expected disintermediation and sinking of distribution costs (Bratec, 2018), new technological developments in the form of the Internet meant the start of new re-intermediation processes (Buhalis and Kaldis, 2008; Kracht and Wang, 2010). The re-intermediation, until the present day, characterises IDS, among which the OTAs have long been enjoying the dominant position. The recent recession brought the popularisation of the DD providers; an IDS specialising in selling the discounted hotel inventory (Berezina et al., 2016).

The useful and timely distribution of hotel inventory is critical for hoteliers to maximise the revenue that could be earned via a perishable core product (i.e. room nights); this is crucial as it is the most significant revenue driver of those types of businesses (Berezina et al., 2016).

To maximise their revenues from IDS, the hoteliers need to be aware of the differences among the BMs with which IDSs operate. Only by understanding BM in detail, they will be able to use each of the IDS most efficiently and according to the situation rightfully know when to rely on OTAs or use DD providers.

Online Travel Agencies

OTAs play a crucial role among the IDSs as they sell large shares of hotels' inventory, with various OTAs selling 'monopolistic' shares, e.g. up to 80 % in Germany (Stangl et al., 2016).

At the same time, IDS put pressure on hotels' profitability by charging commissions of up to 25% (Bratec, 2018), leading to a decrease in net revenues generated by the industry.

Consequently, a challenging 'love-hate' relationship between the hoteliers and the OTAs, in which sales goals are met at the substantial expense of cutting into profits, has been widely studied (Green and LoManno, 2012; Stangl et al., 2016). However, OTAs are superior to hotel websites in access to different global markets (Phocuswright, 2016), meaning they were quickly proclaimed to be a leading and most successful BM in IDS.

In terms of value propositions that different IDS bring to hoteliers, the findings of Raab et al. (2018) suggest that their main advantage, apart from driving revenues, can be attributed to providing hotels with enhanced websites, serving them as an efficient and convenient way to attract customers, thus, actively marketing the hoteliers' distressed room inventory.

Furthermore, the OTAs-associated costs could be seen as a way of profit sharing rather than an expense (Raab et al., 2018), thus giving mutual benefits to both sides.

Origins of DDs

Today, customers can learn about DDs in many ways (Ye et al., 2012); these include direct marketing and social media dissemination (Byers et al., 2012; Li and Wu, 2012). The subscribers are of crucial importance for the DD provider; if a DD provider succeeds in disseminating the deal, it will result in subscribers' growth, and hence it is more attractive to

the merchant who can expose the brand to broader audiences (Arabshahi, 2010). Some DD providers apply the 'pull' approach with the customers acting as 'initiators' and the websites merely acting as 'facilitators', while others practice the 'push' strategy where the provider works as a purveyor of the deals and spreads the information for a commercial benefit and own profit (Boon et al., 2012).

Typically, a single deal runs for 3-4 days, with the first day being featured as a 'deal of the day' and moving down from the main website page for the following days. Every day, a new offer is introduced (Subramanian, 2012; Sigala, 2013; Lo et al., 2014). The DD providers seemed to offer low-risk advertising: if no sales were to be generated, the merchant would not have incurred any costs as the DD providers usually charged a commission per each sale and not for featuring them on the website (Arabshahi, 2010; Dholakia, 2011b; Dholakia and Tsabar, 2011; Kumar and Rajan, 2011; Sigala, 2013).

The DD providers worked on a relatively easy-to-copy BM; thus, among them, there was not much differentiation (Hughes and Beukes, 2012). Therefore, as the market matured and became more saturated, it became necessary for original concepts, and niche providers to develop and not remain as simple copycats of the same model (Kim et al., 2013). Given the above, the following section attempts to distinguish DD providers through the application of BM concept and classify them into two distinct: generic and niche BMs, analysed with examples of Groupon and Secret Escapes, respectively.

3 Methodology

3.1 Study design

The methodological approach is based upon the researchers' motivation to explain, describe, classify and evaluate DD BMs. Thus, naturally, it is drawn towards a qualitative spectrum of academic studies (Schutt, 2012). Furthermore, authors strongly agree with Lynch (2005), who noted the majority of hospitality related research to be positivist in nature, dealing with numerical data and having a deductive focus (Bryman, 2008). Yet, when dealing with a relatively unexplored subject, such as DD BMs, the quantitative approach may inhibit the researchers from being able to explore the subject at hand sufficiently. What is more, the quantitative approach can only be applied after the constructs in BM research are clearly defined (Suddaby, 2010) with the use of qualitative insights from observational studies of a BM (Coombes et al., 2013; Patton, 2002).

This research is grounded within the constructionist paradigm, where there is a belief that the world and understanding of the reality are created in the minds of the individuals (Berger and Luckmann, 1987). This is supported by hermeneutic methodology, in which hermeneutic spiral is utilised to conduct the study, where there is a clear point of departure in the understanding of a concept, which changes over time once all perspectives are uncovered to create a holistic understanding of a phenomenon (Guba and Lincoln, 1989). In order to aid this process, the researchers adopted a 5-stage process, where each of the stages informed upon the following one. This process is illustrated in figure 1. [insert Figure 1].

Stage one of the process was the literature review, which highlighted gaps in the current understanding of DDs; this included lack of a clear conceptualisation of DDs and their

typology. Stage two involved hotel managers; stage three entailed customer study; stage four entailed DD providers perspective and stage five involved digital hospitality expert. This approach ensured a multi-stakeholder understanding of the issues and enabled a rounded and holistic understanding of the DD BMs.

3.2 Sampling

For stage two of the study the authors selected a total of 20 hoteliers that had previous experience with DDs and were operating hotels in 3-, 4- and 5-star category either in the UK or Slovenia in both rural and urban settings. The hotel managers were sampled based on a criterion, snowballing and convenience methods in the areas that were within the researchers' reach. The theoretical sampling included a balanced mix of branded and independent properties, containing hotels in direct ownership, franchise, or marketing affiliation. The hoteliers had between 5 and 20 years of experience in the sector and covered positions of owners, generic managers, sales and marketing managers, or revenue managers. Theoretical saturation of data was reached after interview number 12 and the authors stopped interviewing after having collected the 14th interview. The interviews with hotel managers were recorded during live meetings between 2014 and 2018, were conducted in English or Slovene and lasted between 32 and 78 minutes.

Stage three involved customers that were contacted via the Tripadvisor platform after leaving DD-related reviews. The authors recruited 15 customers, but as saturation of data was reached after interview number 9, they stopped after having interviewed in a total of 11 customers. The interviews with customers were conducted face to face and via Skype and

took place in 2016 and 2018. The interviews, conducted in English lasted between 23 and 62 minutes.

Stage four involved the representatives of DD providers. This was considered the most problematic part of the process due to DDs having a policy not to comment and disclose their business practices publicly. After numerous failed attempts, the authors, only through personal connections, managed to recruit three senior market managers working for three different major DD providers; these were responsible for different European markets. Their experience working for DDs ranged from 3 to 8 years, with one of them having worked previously for a leading OTA, thus, proved to be a valuable source of information regarding the IDS BMs. While theoretical sampling has not been reached for this particular stakeholder group, the researchers acknowledge this limitation, however, consider it is mitigated by cross stakeholders' investigations, the participants' knowledge, and stage five of the study, as described below. The interviews were conducted via Skype in English in 2018 and 2019 and lasted between 63 and 78 minutes.

The last stage of the study involved interviewing a distribution expert, who is a renowned expert in the hotel distribution field with over 20 years of experience. The person was among the first and most influential in publishing on DDs in trade literature. Their views helped to objectify and clarify the areas, which were either not clear or too different in perception by the market managers of DD providers and hoteliers; thus, this stage represents a validation function in the study. The interview lasted 67 minutes and was conducted via Skype in English.

3.3 Data collection method and analysis

The data were collected with the use of a semi-structured interview, following the interview guides and suggestions for decreasing the variability of data (Patton, 2002; Yin, 2009). The authors focus on the core of the interviews to be similar for all stakeholder groups, ensuring all concepts were covered by all stakeholders; yet the flexibility of the design allowed for further investigations to allow clarification of the points made (Bryman, 2008; Sarantakos, 2013). In addition to that, specific sets of personalised questions were developed for each stakeholder with respect to their specific involvement with the DD BM. A basic interview guide, explaining the content of the questions asked to each stakeholder group is available in Table 2 below.

[Insert Table 2: Interview guide]

All interviews were analysed using thematic analysis, which enabled to identify patterns whilst retaining the context of data (Joffe and Yardley, 2004). The analysis followed framework developed by Braun and Clarke (2006), combined deductive (as suggested by literature) and inductive (as emerged from data) coding, as well as analysis on both manifest (data in the form that is being said) and latent (researcher's interpretation of data) levels (Joffe & Yardley, 2004; Brown & Clarke, 2006; Strachan et al., 2015).

4 Analysis

4.1 Generic DD providers

For the purpose of this research, a generic DDs can be defined as providers offering hospitality related services alongside other services and goods. Groupon is used as representative of this BM typology; some may also have dedicated sections of the websites

dedicated to different forms of travel and hospitality offering. The hospitality offering often is local or national in respect to the country of origin and both the hoteliers and customers generally agree that it is usually not of the highest quality.

Value proposition

According to the hoteliers' responses, there are two distinct stakeholders that Groupon can create value for – the merchants and the customers. For the merchants, featuring a Groupon promotion offers a short-term boost in out-of-season sales, filling of empty restaurant seats or hotel rooms, while creating brand exposure to a large number of potential customers. It also allows data capturing for future promotional use (Dholakia, 2011b; Edelman et al., 2011; Piccoli and Dev, 2012; Subramanian, 2012; Wu et al., 2012; Vaughan, 2012; Sigala, 2013). This feature was highlighted as a great positive of engagement with generic DD providers, where most of the respondents, particularly from small and medium hotels, praised exposure achieved and the possibility of a database built up post- promotion.

Generic DD providers also offer an opportunity to address the fluctuations of demand as they can guarantee occupancy on otherwise unsold capacity (Piccoli and Dev, 2012; Sigala et al., 2012). This is particularly important for the hospitality product, which is highly perishable and plagued with supply and demand challenges (Hassanien and Dale, 2013). The interviewed managers highlighted on several occasions that no other distribution and marketing channels were as effective as generic DD providers to bring in custom during the off-season. This, therefore, carries a major advantage of the relative certainty of sales in the time of need.

Value for the customers is elicited from testing products and services, which have not been previously experienced, at a discounted price, and thus at a lower risk (Dholakia, 2010, 2011b; Edelman et al., 2011; Erdoğan and Çiçek, 2011; Štulec et al., 2011; Cox, 2012; Ruggles, 2012; Shiau and Wu, 2013). Groupon also facilitates observational learning, where the number of deals sold is displayed, which influences customers' buying behaviour. In other words, the more popular the deal is, the further the sales of the deals are fuelled (Amblee and Bui, 2012; Li and Wu, 2012; Subramanian, 2012). Interestingly, interviews highlight that the value proposition does not lie in observational learning, but in the financial advantage offered by generic DD providers.

Revenue stream

Groupon offers a variety of goods and experiences, which seems to be a common practice with a majority of DD providers (Piccoli and Dev, 2012). Since this model does not fit all of the businesses, DD providers tend to develop products and tactics to reflect the uniqueness of the merchants they feature to enable easier product and customer match (Lee and Lee, 2012). Thus, Groupon offers geographically localised deals (Lappas and Terzi, 2012; Lee and Lee, 2012). According to Ye et al. (2012), location-based targeting is a valid method and has a positive effect on improving conversions from view to purchase. It may also be reliant on how the DD providers target a specific area, the number of businesses partaking in the DD promotion and competitive pressure in the area (Farahat et al., 2012).

Interestingly, however, conducted interviews showed that from the customers' perspective, regardless of the fact of how the deal is marketed, the main decision-making process behind purchasing is the need. In other words, the hotels are not destinations in their own right, as often they are perceived as a 'necessity' in the area of interest. This implies that less desirable locations, i.e. located far from attractions, should benefit more from generic websites and

national than local coverage. This may be considered problematic as today's generic DD providers feature a high proportion of service industries within their offering, generating most of their sales through local offering followed by goods and travel.

However, what is noteworthy is that while travel is contributing to the smallest proportion in terms of the number of sales, it does contribute substantially more to the revenue generated (Piccoli and Dev, 2012). Groupon is in the eyes of hoteliers an overtly for-profit company, working on the principle of a combination of a steep commission (between 20 % and 50 %) and steep discounts (up to 90 %) (Arabshahi, 2010; Dholakia, 2011a, 2011b; Dholakia and Tsabar, 2011; Sigala, 2013). Since Groupon earn their money from the commission charged, the higher the sales, the higher the profit the website experiences (Byers et al., 2011b; Mullaney, 2011; Sigala, 2013). The businesses which work with the same DD provider on multiple occasions tend to be charged more preferential, lower commission rates (Lee and Lee, 2012), which is also what interviewed managers confirmed. Groupon offers a variety of products to include the main deal of the day, prominently displayed on the main page; offers that are located at the top of the website, within first 10 offers, and that receive greater exposure and consequently sell more coupons; 'side offers' are displayed less prominently on the website, albeit at a smaller commission cost (Lee and Lee, 2012).

Not surprisingly, the majority of hotelier respondents highlighted commission payments as one of the major drawbacks of cooperation with generic DD providers. What has transpired is the relative inability of the hotels to negotiate commissions, especially if the hotel was the one to initiate the promotion.

Key partners

Almost from the beginning, Groupon adopted an aggressive global expansion strategy, which by 2013 resulted in an acquisition of 28 companies worldwide through acquisitions and mergers (Hughes and Breytenbach, 2013). This extension culminated with the acquisition of its biggest rival, LivingSocial, in 2016 (Fiegerman, 2016). One of the most notable partnerships was established in 2011 with Expedia to create a new product called 'Groupon Getaways' to match a product offering by its rival LivingSocial (Piccoli and Dev, 2012), though this partnership according to our DD market managers did not have an expected significant impact.

Distribution channels

Globally, 72 % of sales of Groupon have been completed with the use of a mobile app, with the number of downloads of the app rising steadily over the last three years (Statista, 2018). However, Minor (2017) noted the importance of daily email concerning the dissemination of the deal of the day offer, where the customers anticipate the arrival of the offers directly to their inboxes, saving up on the effort of a search. This traditional mailing feature was also highlighted as important by both the hoteliers and the customers.

Target customers

The usage of Groupon is reported to be gender and ethnic neutral, of above-average earnings (eMarketer, 2011). Minor's (2017) research indicated that Groupon tends to attract lower-end and mid-market hotels as a consequence of attracting a price-sensitive, brand-disloyal customer. This was confirmed during interviews with managers who noted that Groupon customers tend to rigidly stick to their deals, very infrequently overspending beyond the value of the offer and thus not being the right for hotels trying to upsell.

4.2 Niche DD providers

Niche DD providers are organisations specialised in travel and hospitality related services and offer a selection of tailored hospitality offers that are often grouped according to location, length of stay, or budgets. Typical representatives are Secret Escapes and Voyage Privé, two niche DD providers on the European travel market, that play a crucial role in IDS mix. As the niche DD BM remains largely unexplored in academia, the current study explores new frontiers through the use of the BM concept as a preferred lens to understand the niche DD phenomenon.

Value proposition

Similarly to generic DD providers, the two distinct groups of stakeholders that the providers create value for, are travellers and hoteliers, which need to meet in a classic economic market equilibrium point. As revealed by Market Managers 1 and 2 rather than operating in a location-based market, niche DD providers feature hotels in the destinations popular among tourists on the market in which the provider operates, meaning the offer on the German version of Secret Escapes will be different to the one on its British and Italian counterparts. As emphasised by Hotelier 10, with such an approach, the websites offer hoteliers the possibility to use market-specific characteristics and directly target specific nationality-based segments, without fully-integrated marketing campaign.

What the hoteliers further emphasise is a good fit of customers they can reach with the promotion on niche DD provider as opposed to the 'mixed bag' of customers they reach on the generic, location-based DDs providers. This is emphasised by Hotelier 11, who stated that

the main problem experienced with generic DD providers is cannibalisation of already existing customer base.

The opportunities offered by this type of providers can be seen as the so-called 'billboard effect' (Anderson, 2009), where the advertising benefit is matched up with a relatively low risk of damaging a brand. This, therefore, seems to be an important factor when hoteliers decide upon the use of niche DDs, over a quick sale of large amounts of distressed inventory. This is significant, especially for higher-end properties, due to potential dilution of brand and price when being offered on multiple discount channels at the same time (Minor, 2017).

In line with Minor's (2017) study, other higher-end hoteliers highlighted a good 'fit' of niche DD providers for higher-end properties. Spend beyond the value of the offer was often highlighted as a benefit of the customers provided by niche DD providers, despite lower than average profits generated on the base rate. Hotelier 12 emphasised that although Average Daily Rate, a basic measure of hotel performance, achieved with Secret Escapes is amongst the lowest achieved, it is offset by the value created by the additional client segments brought in; clients who the hotel would be unable to reach with other IDS.

This added value drives the hotels' interest in cooperation with niche DDs. However, offering real-time availability, which is a significant value proposition for customers, also comes at the price of niche DD providers' diminishing value proposition to hotels, as opposed to the generic DD BMs. This is most evident when considering the availability during high season (Hotelier 7). Naturally, in order to yield most return, the niche DD providers strive to offer availability during a peak season. However, due to the nature of the hotel business, the hotels do not have a need to engage with DD providers, as they are able to sell the bedroom stock at

a full price, without or a marginal commission (Hotelier 13). This has the potential to cause tensions, and at best requires skilful negotiations, where only limited stock is offered during the peak season.

Thus, in terms of offering a flexible product which the hoteliers can use to their advantage, generic DDs seem to offer a better option. Hotelier 14 praised the flexibility of Groupon voucher-based BM by noting that this option eliminates careful planning of allotments and availability prior a promotion being run and offers opportunities to steer the guests towards booking dates that are convenient for the hotel. However, as highlighted by Minor (2017), this tactic can be short-sighted as often the customers book the vouchers with certain dates in mind, if they are unable to redeem the voucher on the desired date, this leads to dissatisfaction. Therefore, what seems to be a good value proposition for the hotels is not always perceived as a good value proposition for the customers.

Furthermore, DD providers' customers tend to be brand disloyal and savvy, and often shop around for the best possible deal, which is fitting their buying and need criteria (Customer 3, 8). Thus, when the value proposition towards the customer is taken into consideration, it is similar to the value proposition of generic DDs; this is to reduce the risk of trying new hotels by offering customers reduced rates (Edelman et al. 2016; Cox 2017). The value proposition differs in a trade-off between quality and a very steep commission. While, as emphasised by DD Market Manager 1 DDs aim to "*inspire people to travel more, take a spontaneous holiday out of their main, long-ahead-planned vacation*"; the customers often recognise that the discount can come at a trade-off in terms of the quality of product or service, where the rooms offered may be of a lower standard than the ones given for full-price paying guests (Minor, 2017; Customers 2, 6, 9). This issue is confirmed by a Hospitality Distribution

Expert who noted the offer available on DD providers is often very limited in terms of the number of rooms and room types offered. Therefore, the value proposition of niche DD providers towards the customers is mainly conveyed through financial advantage in purchasing high-end hotel stays and real-time booking of limited stock.

Revenue stream

Initially, the niche DD providers mimicked the established commission revenue model of OTAs such as Booking.com, together with the need for a steep discount of Groupon. This came with the addition of one-time transaction fees ranging between €10 to €20 for the processing of reservation borrowed from the generic DD BM (Market Manager 1). At a time of last economic downturn, when the European hotels continued to struggle to get sufficient levels of occupancy, the niche DDs providers were requesting a discount of at least 30 % plus an extra 'freebie' such as room upgrade or a meal or spa access included and a non-negotiable commission of minimum 20 % (Market Manager 2). This way, they strived to differentiate amongst other IDS by offering excellent value for a premium product to the customers.

Consequently, high demand created due to high-value perception yielded high income for DD providers due to the commission charged. However, economic recovery brought different market conditions and the DD providers needed to adjust their revenue stream. This, as explained by Hotelier 11, allowed the hotels to use the DD providers far more flexibility, in line with the business needs. The discount and commission required were not as steep as initial ones, where in the past the websites often required a 50% commission on top of 50% or higher discount.

This was confirmed by DD Market Manager 2, who noted that it was the market conditions that 'forced' them to offer more approachable rates on commission and discount, especially and in particular when it comes to main season dates. However, at the same time, those flexible commission arrangements come with the need to provide an added value, either to the customer or the DD provider. These may include guarantees of best online rates or minimum commission payments being in-written into contracts.

Key partners

Ultimately, the market among the companies operating with DDs and OTAs in the IDS has been dynamic, with many investments, mergers and consolidations happening (CNBC, 2018). Secret Escapes was backed up by investment funds of Google, thus, started to buy regional DD providers, such as Polish company The Travelist, increasing its presence across Europe (May, 2014). French Voyage Privé purchased the upmarket OTA Splendia in its quest to secure itself a permanent inventory of upmarket hotels (Market Manager 1). Thus, as suggested by the Hospitality Digital Distribution Expert, the market remains volatile, especially in times of economic recovery when the consolidation is driven by the large companies acquiring the inventory of smaller businesses.

Distribution channels

The main communication channel for niche DD providers are the mailing lists that attractively present offers to a large number of customers daily. Also, each niche DD provider has its mobile application, many different affiliate distribution channels such as travel blogs describing travel offers, such as Holidaypirates.com as well as deal meta-engine sites such as Deals.co.uk. Often, they also partner with other lifestyle e-marketing companies

such as Gilt and established popular magazines such as Time Out that also distributes the niche DD providers' deals on a profit-sharing-based affiliate agreement.

Target customers

All three interviewed market managers stated the importance of selected profile of the niche DD providers' members, which tended to be 30-50 years old, above average educated and with above-average disposable income, usually taking 6-8 trips per year. This is a definite advantage of this BM compared to the mainstream DDs BM and increases its value towards the hotel significantly. Equally to OTAs, the niche DD providers offer the bonus ranging between €20-25 to their customers for referring them to their friends, therefore, stimulating an increase of their customer base.

4.3 The differences and temporal development of DDs BM

The importance of distinguishing between the two types of DD BMs is confirmed with this study that demonstrates various differences in BM elements of generic and niche DD BMs. Further, the BM elements of both types are also benchmarked against the OTA BM in order to be able to observe the overlap and convergence of distinctive BM elements. Table 3 below provides a comparison of the major BMs in IDS.

[Insert Table 3: A comparison of features of two DD BMs to OTA BM]

In addition, the study also revealed distinct phases in DD BM development, which add further depth to the understanding and classification of DDs as an IDS for hospitality product. Next, Figure 2 provides a detailed overview of the development of DD BMs in an evolutionary perspective through three different phases.

[Insert Figure 2: Phases in DD BM development]

Generic DDs Phase 1 (2008 - 2011): This phase is dominated by a steep required discount of offered products with a deal only becomes valid once it reaches the minimum amount of sales (tipping point mechanism). Within this phase, all DDs rely purely on sales of online vouchers, which then need to be manually redeemed with the service provider.

Generic DDs BM Phase 2 (around 2012): this phase is characterised by the gradual normalisation of the requested discounts, by the decreasing commissions and by omitting a minimum number of vouchers required for the deal to become valid. Here the generic DD BM reaches the phase of maturity.

Generic DDs BM Phase 3 (around 2013): this phase started when Groupon competitors-partners, mainly hotels and third parties, started partnering with major OTAs to start offering travel-related deals with real-time availability. Typically, such a shift requires considerable effort, knowledge sharing with new partners, and capabilities to operate seamlessly in well-established domains of the niche DD providers.

Interestingly, the evolution of the niche DD BMs can be summarised in two phases that correspond to economic circumstances:

Niche DD BM Phase 1 (2008-2014): the initial phase is reflected by the slow growth of niche DD providers, who followed the 'country-after-country' approach to penetrate the markets (Mintel, 2015). Typically, niche DD providers offered an inherently small product portfolio. The requested discount is 25-30 % for hotels to participate in and an upgrade or a

complimentary inclusion on top. Commission levels are set around 20 % and are non-negotiable.

Niche DD BM Phase 2 (around 2015): the second phase is characterised by the bigger flexibility regarding commission charged, different types of agreements and commission reductions for hotels offering inventory via DDs. Similarly, the request for the minimum discount became negotiable, with the key criterion being that the price requested for a hotel room on the DD website is the lowest across the IDS.

4.4 Overlap of BM elements

Findings suggest that all three BMs in IDS aim to differentiate in order to attract a particular group of customers. However, a careful analysis of the BM elements and primary dimensions show an overlap of the BM characteristics to some extent. The three different BMs might gradually converge in terms of BM elements, focus on value co-creation and find a source of competitive advantage. Putting a different emphasis on each BM element and tailoring the elements in such a way that they become customer-centred for their specific target groups can achieve this. Figure 3 illustrates from which BM those characteristics emerged and how they overlap within discussed BMs. Originating elements are justified under specific BM, while arrows show how they evolved to other BMs.

Insert Figure 3 here: Interferences between BM elements in IDS

The essential overlap characteristic is the real-time availability of hotel rooms. Similar to OTAs, generic and niche DDs BM incorporated it into their practice during phase 3 of their development. Ultimately, the OTAs offer many last-minute discounts, which have been

integrated into niche DDs BM as well, i.e. Very Chic offering last-minute stays in urban destinations and Voyage Privé offering deals under the ‘immediate departure’ tag, based on real-time availability.

Similarly, Secret Escapes seems to be merging voucher-based system with real-time availability, in what seems to be a strive to appeal to two distinct markets, i.e. bargain hunters and people using the website as a booking platform. In this sense, even though its key BM characteristic is real-time availability, niche DDs also started to display location-based hotel vouchers for inland travel on its UK version of the website. This strongly signals diversification attempt to gain the most market share possible and a convergence of two previously distinct DD BM elements (vouchers vs real-time availability), which characterised the previously strict division into generic and niche DD providers.

Notably, DDs BM characteristics seemed to be appealing for OTAs in the early 2010s.

Booking.com started experimenting with their ‘secret deals’ only available to their subscribers and ‘deals of the day’. After initial abandonment of the deal section on Booking.com, as the niche DDs were growing in popularity, the section was relaunched and is now a permanent feature (Market Manager 3).

5 Discussion and future outlook

The study at hand demonstrates how DD BM’s unique characteristics enabled and sustained the long-term presence of DD providers in IDS (Parsons et al., 2014). The need for further differentiation is evident as the original, generic Groupon model has become increasingly less attractive to investors, whereas the niche DD providers are the ones that are currently attracting venture capital (CNBC, 2018) or are being purchased by major hotel chains (Accor, 2018). Also, the presence of multiple

parties offering limited deals established the need for differentiation within the industry of DD BMs. While some DD providers focus on ‘quality and boutique-ness’, others tend to offer a ‘larger variety of niche offers’ (DD Market Manager 1).

Therefore, the DD providers will need to capitalise on the opportunities created, especially those enabled by the BM transformation (Teece, 2007; Zach and Krizaj, 2017). To seize these opportunities, DD providers should continuously monitor and modify their BM elements. More importantly, new opportunities might stem from BM alignment, and subsequently, even though not currently happening in practice, a stronger collaboration within the IDS network. An example of this could be OTAs also distributing DD discounted rates on profit sharing basis, similar to the cooperation currently happening with Booking.com, which started to integrate wholesalers’ rates under the Booking.basic brand (Market Manager 3).

As long as a particular IDS fits in within the process of rate management, in line with the business needs and capabilities, the use of DDs should be of mutually beneficial cooperation. Thus, as a part of a process of negotiations, both parties should agree on acceptable terms, inclining terms of commission, discount and inclusions. The findings from all the interviewed hoteliers resonate a stark contrast with the agreement. On the other hand, the responses from Market Manager 2 strongly suggest these processes have become way more democratic, and the DD providers currently offer hoteliers different plans and options and started to be willing to be more flexible about their terms and conditions, often even going slightly below the OTA commission levels. Market Managers 2 and 3 both pointed out the introduction of allotment-based contracting with hotels, in which the hoteliers are stimulated by the decreasing commission levels in cases when they offer discounted inventory throughout the season. This change suggests that the improved economic circumstances also brought more power balance to the IDS market. The relationship between niche DD providers and hoteliers seems to have entered a stage where both parties seek more collaborative and value appropriation-

based relationships. The authors deem these changes necessary and logical for the niche DD BM to sustain long-term presence, notwithstanding the global economic situation.

To sustain or expand their market shares, the niche DD providers will need to re-think their value proposition, especially next to OTAs and general DD providers having become interested in the niches. The DD providers need to find a sustainable two-sided or multiple-sided value-proposition model that will satisfy the needs of both customers and hoteliers. While DDs value proposition towards customers is clear, i.e. they tend to offer better value deals than the mainstream channels, the value towards hotels is a more problematic topic. DD providers offer hotels a platform that offloads distressed inventory, to a customer who is interested in experimenting with destinations and engages with spontaneous travel (Customer 1). The value niche DD providers should communicate to hotels is the well-targeted sales of inventory, for instance, a hotel can decide to discount and push a particular room type, or a board plan based on the inventory not sold directly to OTAs (Market Managers 2 and 3).

Importantly, from a customer's point of view, the DD providers complement the current offers from the OTAs. Customers who use DDs regularly, do not use them only for the 'spontaneous occasion', instead they consider the DD providers as an alternative way to find and book a different kind of a holiday. The reason why DD providers became an alternative source of booking holidays lies in successful marketing campaign from the DD providers, where there is a myriad of advertising strategies employed that fit with people's lifestyles; from 'push' emails in the morning to apps (Customer 2 and 4). However, customers remain more likely to consider the DD providers' offers when travelling on leisure or combine business trips with family holidays (Customer 2, 6 and 9).

DDs also need to clearly communicate their 'promotional value' as they expose hotels to a new audience. As Hotelier 11 indicated, in terms of market opportunities, niche DDs provide a different type of client who is younger but still retains the purchasing power of the target audience. At the same time, general DD providers attract customers with smaller spending power, who are often

characterised by unwanted behaviours, such as deemed inappropriate manners for upmarket hotel restaurants. This, therefore, can have an impact upon other customer enjoyment (Gustafsson et al., 2006; Nam et al., 2011), thus, resulting in diminished online reputation and devaluation of brand.

Distribution Expert highlights that DD providers, especially the general ones, provide high numbers of customers to the hotels; however, this in itself may pose a problem due to the creation of excessive workloads for the staff, who would be unable to cope with the demands, for little or no return in terms of financial benefits. Such reasoning confirms findings of Minor (2017) and Minor and Ritchie (2018), who noted that each general DD-provider-based booking often results in 3 phone calls, meaning that the typical workload for hotel front office staff is doubled or tripled, creating an extremely busy environment for the front office staff. The main reason behind this pressure being the lack of technological integration of the DD providers, creating vast amounts of manual work (Distribution Expert). The manual work not only consists of the processing of bookings but also bureaucracy in relation to the redemption of the generated income by the hotel from the DD provider (Minor, 2017).

The niche DD providers are aware of their technological disadvantage and are increasingly looking into areas where they could differentiate from the OTAs and capture additional value. DD Market Manager 2 and 3 noted that whilst connectivity is an issue, one that is difficult to amend at present; they rather focus on personalisation, something they believe will give them an advantage over OTAs in the eyes of the customer. Both leading niche DD providers are currently significantly investing in developing artificial intelligence solutions that would help them better personalise the e-marketing campaigns for their customers that are believed to remain the most important factor of DD sales. According to DD Market Managers 2 and 3, the personalisation and algorithms that should be launched with Q4 of 2019 should be able to read the customers disposable income, preferred hotel type and style and suggest the right kind of destinations that fit individual's lifestyle. In their opinion, confirmed by the one from the Distribution Expert, these advanced recommendation systems known

from the likes of Amazon and eBay, if properly and timely executed, could give niche DD providers a competitive edge over the OTAs, which are currently only capable of destination and property type based personalisation and, thus, increase their value proposition for the customers. While the outcomes of this personalisation development remain to be seen, the authors agree with the final remark of the Distribution Expert who noted the capacity for embracing the technological progress will remain the key area to master for niche DD providers, in order to sustain their value proposition towards hotels and be able to compete with OTAs in the long run.

6 Conclusions

The current study suggests that there is a need for reconsideration of the niche DD BM value proposition, in particular towards hotels, in order for those channels to avoid becoming an obsolete, additional, yet work-intensive and less relevant IDS. The advancing ‘overlap’ of BM elements among the various analysed IDS might indicate difficulties in sustaining unique characteristics of the niche DD providers. The IDS are becoming increasingly similar from customers’ perspective as a result of their BM elements overlapping with the niche DD BM being a ‘hybrid’ (Market Manager 3) between the OTA and the generic DD BM (see Figure 3).

The present paper allows future researchers of IDS to better understand the unique, pivotal, and overlapping elements of BMs in IDS. Enhanced understanding will enable further, more quantitative and in-depth analysis of the developing IDS. On the practical side, hoteliers can strategically liaise with the BM type of DD providers that best suits their needs. IDS providers themselves also benefit from the enhanced perception of the BM elements and value propositions the competing and co-existing IDS are offering in today’s distribution ecosystem.

Along with the contributions above, the following practical implications are predicted. For the general DD providers, it may be more difficult to obtain high-quality hotels to cooperate, as the niche DD

providers appear to be a dominant force. This suggests that general DD providers should concentrate and market accordingly on lower- to mid-range hotels, as well as match them with customers looking for this type of product. Niche DD providers should endeavour to strengthen B2B marketing and invest in their technological integration capabilities with the hotels' automated software solutions to enable a less labour-intensive collaboration for hotels, in a strive to become a more permanent and relevant IDS. Similarly, they need to stream towards becoming the "pioneers of personalisation" in order to retain their value for the consumers, despite their currently lowered capability of securing significantly discounted deals.

The study utilised hermeneutic methodology rooted in constructivist qualitative tradition and was designed to thoroughly examine the BMs of DD providers in the IDS. Naturally, the choice of such an approach entails limitations. To tackle the limitation of generalizability of results, the authors have used the multitude of available sources, conducted careful, multi-approach sampling and planned the interviews in a way to capture the different stakeholder viewpoints and beliefs. The interviews were carried out in line with Patton's (2002) suggestions for the increase of the repeatability of the study and conducted until the theoretic saturation of data was reached. Lastly, authors designed the study with a focus on achieving the analytical generalisability (see, e.g., Yin, 2009) as the authors carried a thorough analysis with accurate and comprehensive descriptions of both the observed BM elements and the way the analysis was executed, in order to allow for comparisons with any future research. The approach aimed at stimulating the BM-related discussion, defining measurable constructs for future quantitative research, and indicating the directions for future research of the topic.

Taking the limitations into account, the contributions of the current study are threefold. First, the study represents an initial attempt to apply a BM approach to provide a common ground for identifying and comparing BM elements and primary dimensions of different DD BMs and OTA BMs. Second, it affirms the distinguishing elements of the general and niche DD BMs and their similarities and similarities with OTA BM. Third, it provides an initial attempt to stimulate

conversations between the BM research and the study of the vibrant field of IDS within tourism research. This allows for the free flow of ideas and constructs into the BM research and helping it overcome its self-defining tendency in line with Zott et al.'s (2011) suggestions. Lastly, it reveals the current state of BM interferences among different BM elements present in IDS and provides an outlook for the future developments in the field.

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Table 1: *Observed BM elements*

<i>Value proposition</i>	<i>Revenue stream</i>	<i>Key partners</i>	<i>Distribution channel</i>	<i>Target customers</i>
Explains how customers or hoteliers see a bundle of activities a BM entails and perceive the value of products and services offered by a company. (Osterwalder et al., 2014).	Revenue stream represents a particular source through which a company generates money from selling products and services (Ibrahim, 2006).	Key partners are organizations that support the business model and can facilitate the activities necessary for the further development of the model (Gassman et al., 2013).	Distribution channel describes a path through which a product or a service is conveyed from its point of origin to the end user (Rosello & Riera, 2012).	Target customers represent a pool of potential end users an organization aims to reach (Lancaster & Massingham, 2017).

Table 2: Interview guide

GENERIC QUESTIONS
What do you think of DDs?
How long have you been using DDs?
Where do you see as their main value?
How have they changed since 2011?
How do they differ with each other?
How do they compare to OTAs?
What do you think will happen to them in the future?
STAKEHOLDER GROUP SPECIFIC QUESTIONS
HOTELIERS
How do you see the evolvement of DDs?
How do you see their commission levels and required discounts?
CUSTOMERS
What types of DDs do you know?
What makes you use them apart from the discounts they offer?
MARKET MANAGERS
Which are the key areas you need to improve/further develop?
Which IDS do you see as your main competitor?
How do you generate revenue?
DISTRIBUTION EXPERT
What makes DDs still popular in today's time of economic recovery?
What do you see as their key strength/weakness?
How do they differentiate from OTAs?
How do you see their future developments?

Table 3: A comparison of features of two DD BMs when benchmarked against the OTA BM

BM elements	Feature	OTA BM (Booking.com)	generic DD BM (Groupon)	Niche DD BM (Secret Escapes)
Customers and customer value proposition	Customer's access to the website	Open access without registration. Registration unlocks special deals.	Registration required prior to purchasing a deal	Registration required to see pricing and deal content
	Customer segments	Wide variety of customers	Wide variety of customers	Niche customer base, interested in value for money upmarket hotel product
	The strategy of extending customer segments	Recommendation system in place which rewards both the recommender with EUR 15 and grants the recommended 10% discount	Calls for action on the publicly accessible website; incentive method used in the past	Stimulates peer to peer invitation by offering EUR 25 if a person recruits a new member
Hotel value proposition	Inventory	The largest possible inventory of accommodation. Ranging from privately owned tents to most luxurious hotels.	Diverse products and services; very diverse and predominantly mid-range hotel inventory and travel product in a special travel section	Predominantly upmarket hotels and selected travel packages only
	Presentation of the hotel in the inventory	Systematic presentation with a description of room types, high-quality images and short and concise descriptions	Basic hotel description and plenty of information on the destination and redemption options	Detailed presentation with a description of room types, high-quality images, clearly explained offers and USPs
	Inventory allocation availability	The hotel manages the allocation in real time. Allotment of min 1 room in place in most of Eastern and Southern Europe	Possibility of offering a limited number of vouchers available	Possibility of offering a different amount of rooms for each specific arrival date
	Type of contract with the hotel	generic cooperation agreement	Each promotion requires a new contract	generic cooperation agreement and special contract for each individual promotion
	Hotel presence	Available on the website 24/7	Time-limited promotions for 3-4 days. The newest are featured at the top of the page; possibility of being featured in different geographical areas at different times	Periodical, time-limited promotions limited to 7 + 7 days for the agreed market/language version of the platform
	Hotel competitors on the website	All other hotels in the destination.	On the main page, the hotel name is hidden behind the destination and description of what the deal includes	Limited amount of competitor hotels within one destination (max. 2-3, usually with different characteristic) during the time of the promotion

	Hotel availability	Up to 1.5 years in advance	Up to 1 year in advance, black-out dates are very common, and numerous restrictions apply; Coupons do have an expiry date	Typically, six months in advance, with real-time availability and very limited black-out dates
Revenue stream	Revenue model	Merchant	Merchant	Merchant
	Required discount	/ Discounting stimulated via Genius rates for registered customers which grant 10-15% off	40-60 %	20 % plus added value
	Exact product	All available room types and rate plans without exception	Double room with meal plan mostly for a fixed number of nights	Double room with breakfast mostly, bookable for a customisable period of time
	Payment	Both options: at the purchase, or in the property during the stay	At the purchase	At the purchase
	Commission	15-20%	25%, variable	20 %, negotiable + EUR 10-20 transaction fee charged to customer
Key partners	OTAs and DDs	Airlines, Meta-search engines	Expedia	Local and luxury-oriented OTAs that provide more inventory and easier access to upmarket hotels
Distribution channels	Social Media	Moderate use	Heavy use	Moderate use
	Affiliate partners	Its own affiliate network of websites	/	Gilt, Time Out, Holiday Pirate etc.
	Meta-Engines	Mainstream meta-engines	Deal-specialised meta-engines	Deal-specialised + mainstream meta-engines

Figure 1: Hermeneutic spiral, staged study design

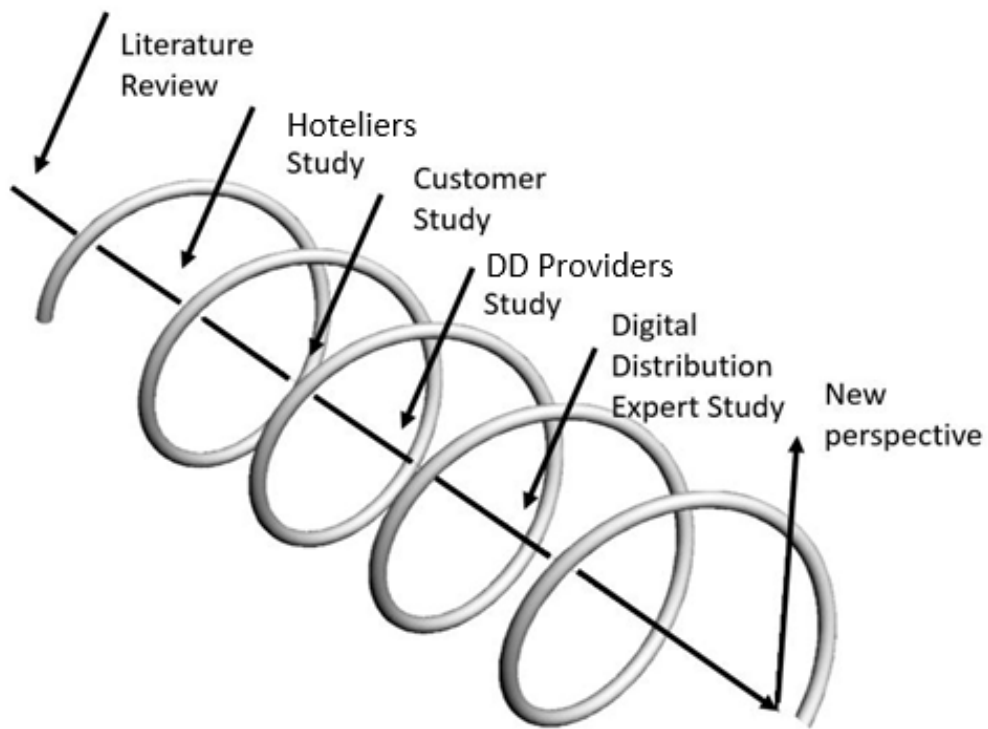


Figure 2: Phases in DD BM development

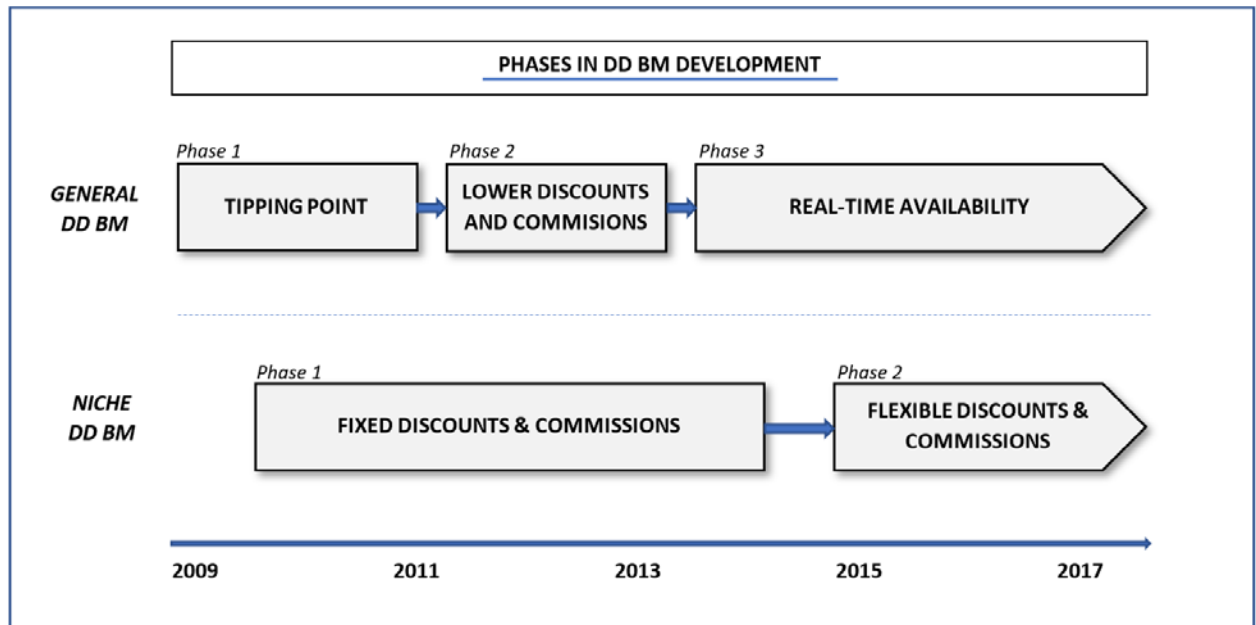


Figure 3: Interferences between BM elements in IDS

