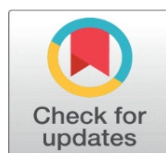
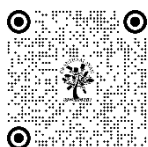


# THE IMPACT OF HIGH COMMISSION RATES ON LOCAL TOURISM ENTREPRENEURS- A STUDY FOCUSED ON ONLINE TRAVEL AGENCIES IN KERALA

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## ABSTRACT

Online Travel Agencies (OTAs) have transformed the tourism industry by offering global reach and streamlined booking processes. However, high commission rates imposed by OTAs have raised concerns among local tourism entrepreneurs in Kerala. This study explores the economic and operational impacts of these commission structures on small and medium-sized tourism enterprises (SMEs), including homestays, adventure tour operators, and boutique hotels. Through qualitative and quantitative analysis, the research examines financial strain, pricing strategies, and dependency on OTAs. The findings reveal that while OTAs provide visibility and customer inflow, high commissions reduce profit margins, limit reinvestment in quality services, and increase reliance on alternative direct booking strategies. The study suggests policy interventions and strategic adaptations to balance the benefits of OTA partnerships with sustainable business growth for local entrepreneurs.

**Keywords:** Online Travel Agencies (OTAs), High Commission Rates, Local Tourism Entrepreneurs, Kerala, Small and Medium Enterprises (SMEs)

## 1. INTRODUCTION

### 1.1. BACKGROUND OF THE STUDY

Online Travel Agencies (OTAs) have revolutionized the way people plan and book their travel. They offer convenience and a wide range of choices, making them popular among travellers. However, for local tourism entrepreneurs such as small hotels, guesthouses, and tour operators, reliance on OTAs can come at a cost. One significant factor is the commission rates charged by OTAs, which can be substantial. This study aims to investigate the impact of these higher commission rates on local tourism entrepreneurs, exploring how they affect business operations, profitability, and the overall tourism ecosystem. Understanding these impacts is crucial for developing strategies to support local tourism businesses and maintain a sustainable tourism industry.

## 1.2. STATEMENT OF THE PROBLEM

The rise of online travel agencies (OTAs) has revolutionized the tourism industry, providing unparalleled convenience and access for travellers. However, their higher commission rates pose a significant challenge for local tourism ventures, often smaller enterprises operating with tighter margins. This study delves into the complex interplay between OTA dominance, commission rates, and the viability of local tourism ventures. It seeks to examine how increased OTA commission rates impact the profitability, sustainability, and competitiveness of local businesses, potentially pushing them out of the market. It will further explore the potential consequences for tourists, potentially limiting their exposure to authentic local experiences and cultural richness.

## 1.3. RELEVANCE AND SCOPE OF THE STUDY

The rise of Online Travel Agencies (OTAs) has brought unprecedented convenience to travellers but poses challenges for local tourism businesses, particularly in emerging destinations. Increasing OTA commission rates are impacting the profitability of small ventures, risking the cultural diversity they contribute to the tourism landscape.

This study explores the issue comprehensively, moving beyond financial considerations to analyse the broader impact on local tourism. It aims to unravel the intricate interplay between financial sustainability, economic growth, and cultural preservation amid rising commission rates.

## 1.4. OBJECTIVES OF THE STUDY

- 1) To understand the level of online travel agency commissions.
- 2) To understand the relationship between online travel agencies commission and profitability of local businesses.
- 3) To evaluate the impact of online travel agency commissions on local tourism ventures.

### Hypothesis

Hypothesis - 1

H0: There is no relationship between online travel agency commissions and the profitability of local businesses

H1: There is a relationship between online travel agency commissions and the profitability of local businesses.

### Hypothesis - 2

H0: Online travel agency commissions have no impact on the success or failure of local tourism ventures.

H1: Online travel agency commissions have an impact on the success or failure of local tourism ventures.

## 2. REVIEW OF LITERATURE

### OTAs and Destination Development

Feliciano (2022) examined the role of OTAs in creating new tourist destinations, focusing on Hurb's influence on Olímpia, Brazil. The study revealed that Hurb was instrumental in the city's tourism growth by serving as a primary marketing tool, driving visitor demand, and influencing the expansion of tourism infrastructure and businesses.

### Impact on Hotel Brand Relationships

Chivandi (2020) investigated the influence of OTAs on brand relationships in South African hotels. Using Structural Equation Modelling (SEM), the study found that OTAs facilitate brand loyalty and repurchase intentions among millennial travellers. However, marketing incentives are necessary to convert attitudinal loyalty into behavioural loyalty, ensuring repeat visits.

### **Pricing Strategies and Consumer Preferences**

Kim (2020) analysed how price dispersion on OTAs affects travellers' hotel choices. The findings showed that travellers prefer hotels with a wide price dominance dispersion, particularly when an external regular price is present. Additionally, uncertainty about the destination further influences price-based decisions.

### **Consumer Behavior and OTA Adoption**

Min and Lee (2020) explored consumer behavior in response to the growing dominance of OTAs. Using the UTAUT model, the study identified key factors influencing travelers' adoption of OTAs, such as convenience, user experience, and access to extensive travel information. The findings offer insights for improving OTA platforms to align with consumer expectations.

### **Blockchain and Disintermediation in Tourism**

Rashideh (2020) examined the potential of blockchain technology to disrupt OTAs by decentralizing the tourism industry. The study, based on expert interviews, highlighted blockchain's ability to eliminate intermediaries, enhance transparency, and shift power dynamics toward direct transactions between travelers and service providers.

### **Evolution of E-Business Models in Tourism**

Reinhold et al. (2020) traced the development of e-business models in the tourism industry, categorizing them into commerce-type (transaction-based), content-type (user-generated content), context-type (aggregation of information), and connection-type models (platform-based services). The study provided a historical perspective on how OTAs evolved with technological advancements.

### **Fundamentals of the Tourism Industry**

Camilleri (2018) provided an overview of the tourism industry, discussing different tourism segments such as urban, seaside, ecotourism, and business tourism. The chapter emphasized the importance of amenities, accessibility, and destination attractiveness in shaping tourism demand.

### **Consumer Satisfaction and Loyalty in OTAs**

Martínez-Costa et al. (2018) examined customer satisfaction with OTAs, focusing on the role of information quality and usability. The study found that well-structured information significantly enhances customer satisfaction, leading to increased loyalty and positive word-of-mouth marketing.

### **The Relevance of Direct Hotel Booking Systems**

Van De Logt (2017) explored whether hotels should maintain their own booking systems despite the dominance of OTAs. Through qualitative research, the study found that while direct booking remains profitable, completely cutting ties with OTAs is impractical. Instead, hotels should implement strategies to boost direct bookings, such as offering exclusive benefits and optimizing mobile platforms.

### **Supplier Relationship Management in OTAs**

Ariya and Chakpitak (2016) applied systems thinking to study supplier relationship management (SRM) in OTAs. The research identified two key processes—systematized supplier selection and knowledge sharing—highlighting the importance of strategic supplier relationships in maintaining OTA competitiveness and service quality.

### **Tourism FDI and Poverty Alleviation in The Gambia**

Davidson & Sahli (2015) examined the impact of foreign direct investment (FDI) in The Gambia's hotel sector on poverty reduction. While foreign-owned hotels contribute to employment, training, and community engagement, they also create challenges such as gender disparities, seasonal job instability, and limited local management opportunities. The study highlights the need for balanced policies to maximize the benefits of both foreign and local hotel ownership in fostering sustainable development.

### **Impact of Online Booking Platforms on Rural Tourism**

Gössling & Lane (2015) explored how internet-based booking systems, particularly Booking.com, have reshaped rural tourism in Western Norway. While these platforms expand market reach for small accommodations, they also

undermine national and regional booking organizations that provide essential support to businesses. The study discusses how rural tourism providers can adapt to this evolving digital landscape.

### **Competitive Strategies for Online Travel Agencies (OTAs)**

Vilarinho (2014) investigated how OTAs can move beyond price competition by focusing on value-driven strategies. It presents a framework for OTAs to enhance customer relationships, provide personalized experiences, and leverage digital marketing tools to build brand loyalty. The study advocates for a shift from price wars to differentiated service models.

### **Changing Tourism Markets and Hyper-Competition**

Christian & Nathan (2013) analyzed the global tourism value chain, drawing from case studies in Asia and Africa. It highlights how oligopolistic tour agencies control market dynamics, leading to intense competition and precarious employment conditions. The study suggests branding and organizational strategies to enhance benefits for workers and service providers in the tourism sector.

### **Online Travel Companies and Room Occupancy Taxes**

Hamilton, Marshall & Hobson (2012) discusses whether online travel companies (OTCs) should pay occupancy taxes on the full price charged to consumers or the discounted price paid to hotels. The issue is complicated by varying state and local tax laws, with conflicting court rulings. The study suggests that the final resolution may require U.S. Supreme Court intervention.

### **Tourism and Poverty Alleviation in Fiji**

Scheyvens & Russell (2012) compares the impacts of small and large-scale tourism enterprises in Fiji. While both contribute to revenue, employment, and community development, indigenous businesses struggle due to limited government support. The study argues that Fiji's tourism policy favors foreign-owned resorts, limiting opportunities for local participation and reducing tourism's potential for poverty alleviation.

### **Strategic Evaluation of OTA Websites**

Chiou, Lin & Perng (2011) presented a five-stage framework for evaluating online travel agency websites. By analyzing two leading OTAs, the study identifies strengths and weaknesses using criteria such as functionality, content quality, pricing, and customer relationships. The findings help OTAs align their websites with strategic goals and enhance user experience.

### **E-Service Quality in Online Travel Agencies**

Fu Tsang, Lai & Law (2010) identified six key factors influencing e-service quality in OTAs: website functionality, information quality, fulfilment, security, presentation, and customer relationships. It finds that website functionality has the greatest impact on customer satisfaction and repeat purchases. The study offers guidelines for improving online service quality in the travel industry.

### **Community-Based Tourism in Namibia**

Lapeyre (2010) assessed the effectiveness of community-based tourism enterprises (CBTEs) in Namibia. While CBTEs generate local income and provide training opportunities, they struggle with integration into competitive tourism markets, weak management capacity, and inconsistent external support. The research questions the long-term sustainability of CBTEs without stronger institutional backing.

### **Internet's Role in Tourism Distribution**

Zeeshan, Euba & Abadzhiev (2006) examined how the internet has transformed tourism distribution, focusing on online and traditional travel agencies in Sweden and Bulgaria. It finds that OTAs have superior website functionality and interactivity compared to traditional agencies, which struggle with digital adaptation. The study provides insights into improving travel agency websites for greater market competitiveness.

### **Impact of Online Travel Sales on Traditional Agencies**

Wilson (2000) examined how the growth of online travel sales is reshaping urban retail spaces, including the decline of brick-and-mortar travel agencies. While online travel services offer convenience and affordability, their long-term impact on physical travel agencies and commercial spaces remains uncertain.

### 3. METHODOLOGY

#### 3.1. RESEARCH APPROACH AND DESIGN

This study employs a mixed-methods approach, integrating both quantitative and qualitative methods to analyse the impact of Online Travel Agencies' (OTAs) commission rates on local tourism ventures.

##### Quantitative Approach:

A structured survey will be administered to local tourism businesses to collect data on key performance indicators such as revenue, profit margins, and customer acquisition costs before and

after engaging with OTAs at different commission rates. Statistical analyses, including correlation and regression models, will be applied to identify significant trends and relationships.

##### Qualitative Approach:

To gain deeper insights, in-depth interviews and focus group discussions will be conducted with local tourism operators. These will explore their experiences, challenges, and strategic responses to varying OTA commission rates. Additionally, case studies of select businesses will be used to highlight specific strategies and their outcomes.

This mixed-methods design ensures a comprehensive understanding of the issue, triangulating findings from multiple sources to enhance the study's robustness. The results will contribute to both academic knowledge and practical implications for tourism businesses and policymakers.

#### 3.2. SOURCES OF DATA

This research utilizes both primary and secondary data sources.

Primary data was collected from local tourism operators. A structured questionnaire was developed for this purpose. Secondary data was collected from company financial reports, academic journals and publications.

##### Sampling Design:

Sample Size: 154 respondents.

Sampling Method: Convenience sampling, selecting participants based on accessibility. While this method allows for efficient data collection, potential selection bias will be acknowledged in the study's limitations.

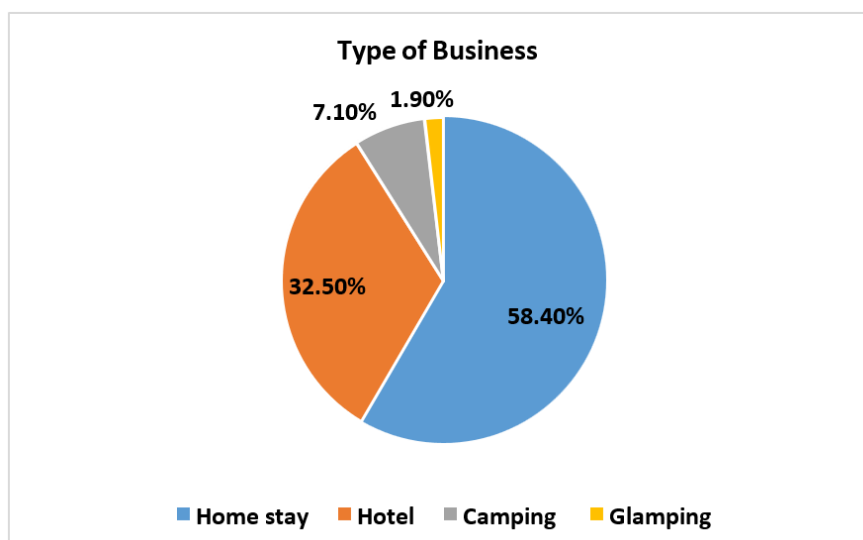
### 4. DATA ANALYSIS

#### 4.1. TYPE OF BUSINESS

**Table 4.1:** Type of Business

Type of Business				
	Frequency	Percent	Valid Percent	Cumulative Percent
Home stay	90	58.4	58.4	58.4
Hotel	50	32.5	32.5	90.9
Camping	11	7.1	7.1	98.1
Glamping	3	1.9	1.9	100.0

<b>Total</b>	<b>154</b>	<b>100.0</b>	<b>100.0</b>	
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**Figure 4.1** Type of Business  
Source Primary Data INTERPRETATION

The table presents the distribution of different types of businesses in the local tourism industry. The majority of the businesses surveyed are home stays, accounting for 58.4% of the total. Hotels constitute the second-largest category, representing 32.5% of the businesses. Camping facilities make up a smaller proportion, with 7.1% of the businesses, and glamping sites are the least common, comprising only 1.9% of the total. The data indicate that home stays are the most prevalent type of business in the local tourism industry, followed by hotels.

## 4.2. THE LEVEL OF ONLINE TRAVEL AGENCY COMMISSIONS.

The mean value is used to analyze the level of online travel agency commissions. The mean is a measure of central tendency that provides the average value of a set of data.

**Table no.4.2** The level of online travel agency commissions

Descriptive Statistics			
	N	Mean	Std. Deviation
Online travel agency commission	154	3.205	0.5416

### INTERPRETATION

The descriptive statistics for Online Travel Agency Commission Rates indicate that, based on a sample of 154 local tourism ventures, the average commission rate is 3.205, with a standard deviation of 0.5416. This suggests that, on average, local tourism ventures are charged a commission rate of around 3.205% by online travel agencies, with some variation in rates observed across the sample. The standard deviation of 0.5416 indicates that the commission rates are somewhat dispersed around the mean, with some ventures likely paying lower rates and others paying higher rates.

This information provides insights into the typical range of commission rates that local tourism ventures might encounter when working with online travel agencies.

#### 4.3. THE RELATIONSHIP BETWEEN ONLINE TRAVEL AGENCIES COMMISSION AND PROFITABILITY OF LOCAL BUSINESSES.

H0: There is no relationship between online travel agency commissions and the profitability of local businesses

H1: There is a relationship between online travel agency commissions and the profitability of local businesses.

Table no.4.3: Correlation analysis of online travel agencies commission and profitability of local businesses.

Correlations			
		Profitability	Online travel agencies commission
Profitability	Pearson Correlation	1	.227**
	Sig. (2-tailed)		.005
	N	154	154
Online travel agencies commission	Pearson Correlation	.227**	1
	Sig. (2-tailed)	.005	
	N	154	154
* Correlation is significant at the 0.01 level (2-tailed).			

#### INTERPRETATION:

The correlation analysis between profitability and Online Travel Agencies Commission Rates (OTAC) suggests a statistically significant negative relationship ( $r = -0.227$ ,  $p = 0.005$ ). This indicates that as Online Travel Agencies Commission Rates increase, the profitability of local tourism ventures tends to decrease.

**Table 4.4:** Regression analysis of Online travel agencies commission and profitability of local business

Model Summary				
Model	R	R Square	Adjusted R Square	Std. Error of the Estimate

1	.227 <sup>a</sup>	.051	.045	.5918512 79055751
a. Predictors: (Constant), Online travel agency commission				

Source Primary data

### INTERPRETATION

The model summary indicates that the relationship between the predictor variable, online travel agency commission (OTAC), and the profitability of local businesses, as measured by the R-squared value, is relatively weak. The R-squared value of 0.051 suggests that only about 5.1% of the variability in profitability can be explained by the online travel agency commission rates. This indicates that other factors beyond just commission rates likely influence the profitability of local businesses in the tourism industry. The standard error of the estimate is 0.5918 which represents the average distance between the actual profitability values and the predicted values by the model.

### 4.4. COEFFICIENT OF ONLINE TRAVEL AGENCIES COMMISSION AND PROFITABILITY OF LOCAL BUSINESS

Coefficients <sup>a</sup>						
Model		Unstandardized Coefficients		Standardized Coefficients	t	Sig.
		B	Std. Error	Beta		
1	(Constant)	2.558	.287		8.908	.000
	Online travel agency commission	.253	.088	.227	2.868	.005
a. Dependent Variable: Profitability of local ventures						

Source Primary data INTERPRETATION

The coefficient table provides information on the relationship between Online travel agency commission and Profitability of local tourism ventures. The coefficient for the online travel agency commission rate is 0.253. This means that for every one-unit increase in the commission rate, the predicted profitability of local ventures increases by 0.253 units. The standardized coefficient (Beta) of 0.227 indicates that the commission rate's impact on profitability is moderate, after accounting for the scale of the variables. The t- value of 2.868 indicates that the coefficient for the commission rate is statistically significant at the 0.005 level. This suggests that there is a significant relationship between the online travel agency commission rate and the profitability of local ventures. The

results suggest that as the commission rate charged by online travel agencies increases, the profitability of local ventures tends to decrease.

### 4.5. THE IMPACT OF ONLINE TRAVEL AGENCY COMMISSIONS ON LOCAL TOURISM VENTURES

H0: Online travel agency commissions have no impact on the success or failure of local tourism ventures.

H1: Online travel agency commissions have an impact on the success or failure of local tourism ventures.

**Table 4.6** Correlation analysis of Online travel agency commission and impact on the local tourism ventures

Correlations			
		Impact	Online travel agency commission
Impact	Pearson Correlation	1	.334 **
	Sig. (2-tailed)		.000
	N	154	154
Online travel agency commission	Pearson Correlation	.334 **	1
	Sig. (2-tailed)	.000	
	N	154	154
**. Correlation is significant at the 0.01 level (2-tailed).			

### INTERPRETATION

The correlation table indicates that there is a statistically significant positive correlation between the impact variable and the online travel agency commission variable at the 0.01 level (2-tailed), with a Pearson correlation coefficient of 0.334. This suggests that as the online travel agency commission rates increase, the perceived impact of these commissions on local tourism ventures also tends to increase. The moderate positive correlation coefficient of 0.334 implies that there is a tendency for the impact of online travel agency commissions to increase as the commission rates increase. This finding suggests the need to consider the perceived impact of online travel agency commissions when analyzing their effects on local tourism ventures, as it appears to be related to the commission rates charged by these agencies.

**Table 4.7** Regression analysis of Online travel agency commission and impact on the local tourism ventures.

Model Summary				
Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	.334 <sup>a</sup>	.111	.106	.5175
a. Predictors: (Constant), Online travel agency				

### INTERPRETATION

The model summary indicates that the relationship between the predictor variable (Online travel agency commission) and the impact variable is statistically significant, with an R-squared value of 0.111. This means that approximately 11.1% of the variance in the impact variable can be explained by the online travel agency commission variable in the model. The standard error of the estimate (0.5175) represents the average distance between the actual impact values and the predicted values by the model. A lower standard error indicates that the model is better at predicting the impact based on online travel agency commission rates, but in this case, the standard error is moderate, indicating that the model's predictions may not be highly precise. The result suggests that there is a statistically significant relationship between online travel agency commission rates and the impact variable, but the model's

explanatory power is relatively modest, indicating that other factors not included in the model may also influence the impact variable.

**Table 4.8** Coefficient of Online travel agency commission and impact on the local tourism ventures.

Coefficients <sup>a</sup>						
Model		Unstandardized Coefficients		Standardized Coefficients	t	Sig.
		B	Std. Error	Beta		
1	(Constant)	2.504	.251		9.972	.000
	Online travel agency commission	.337	.077	.334	4.365	.000
a. Dependent Variable: Impact on local tourism ventures						

## INTERPRETATION

The coefficient for the online travel agency commission rate is 0.337. This means that for every one-unit increase in the commission rate, the predicted impact on local tourism ventures increases by 0.337 units. The standardized coefficient (Beta) of 0.334 indicates that the commission rate's impact on the impact variable is moderate, after accounting for the scale of the variables. The t-value of 4.365 indicates that the coefficient for the commission rate is statistically significant at the 0.000 level. This suggests that there is a significant relationship between the online travel agency commission rate and the impact on local tourism ventures. The results suggest that as the commission rate charged by online travel agencies increases, the impact on local tourism ventures also tends to increase.

## 5. FINDINGS

The study reveals that local tourism ventures pay an average commission rate of 3.205% to online travel agencies (OTAs), with some variation. While commission rates have a negative correlation (- 0.227) with profitability, indicating that higher rates tend to reduce profits, the overall explanatory power of the model is weak ( $R^2 = 0.051$ ). This suggests that factors beyond commission rates, such as marketing strategies, operational efficiency, and market conditions, play a significant role in determining profitability. Interestingly, one part of the analysis found an unexpected positive relationship (coefficient: 0.253) between commission rates and profitability, suggesting that certain businesses may still perform well despite higher fees, possibly due to strong demand or strategic positioning.

Additionally, the study highlights the perceived impact of commission rates, with a moderate positive correlation (0.334) between commission rates and how strongly businesses feel affected by them. The model explains 11.1% of the variation in perceived impact ( $R^2 = 0.111$ ), indicating that while commission rates influence business perceptions, other factors also contribute to their financial burden. Furthermore, the relationship between commission rates and impact is statistically significant (coefficient: 0.337, t-value: 4.365), reinforcing that higher commission fees tend to have a greater effect on local tourism ventures. These findings emphasize the need for businesses to carefully assess and negotiate OTA commission structures while considering other key factors affecting profitability and sustainability.

## 6. CONCLUSION

The study on the impact of online travel agencies' (OTAs) commission rates on local tourism entrepreneurs reveals significant insights into the challenges faced by these ventures. The findings suggest that higher OTA commission rates are associated with lower profitability for local tourism ventures. This indicates that as these commission rates increase, the financial performance of local entrepreneurs tends to decline. This finding underscores the financial strain imposed by OTAs on local tourism businesses, highlighting the importance of understanding and managing commission structures to ensure sustainable profitability.

Moreover, the study indicates that higher OTA commission rates also lead to a greater perceived impact on local tourism ventures. This suggests that as commission rates increase, local entrepreneurs perceive a greater negative effect on their businesses. This finding underscores the broader implications of high OTA commission rates beyond just financial performance, potentially affecting the overall sustainability and growth of local tourism ventures.

Overall, the study emphasizes the need for local tourism entrepreneurs to carefully consider and negotiate commission rates with OTAs. It also highlights the importance of policymakers and industry stakeholders in developing strategies to address the challenges posed by high OTA commission rates. By understanding the impact of commission rates on local tourism ventures, stakeholders can work towards creating a more sustainable and equitable business environment for these entrepreneurs.

## 7. SUGGESTIONS

- Entrepreneurs should conduct research to understand the market standard for commission rates charged by OTAs. Armed with this knowledge, they can negotiate with OTAs from a position of strength, seeking rates that are fair and sustainable for their business. Building strong relationships with OTA representatives and demonstrating the value their business brings to the platform can also improve negotiation outcomes.
- In addition to OTA bookings, entrepreneurs can explore additional revenue streams such as offering add-on services, partnering with local attractions or transportation services, or even creating unique merchandise related to their tourism offerings. These diversification efforts can help reduce reliance on OTA bookings and mitigate the impact of high commission rates.
- Investing in targeted marketing campaigns that highlight the unique selling points of the business can help attract direct bookings. Utilizing social media, influencer partnerships, and email marketing can be effective strategies to reach potential customers directly and reduce dependency on OTAs for customer acquisition.
- Conducting regular audits of operational processes to identify inefficiencies and areas for cost savings can help offset the financial impact of high OTA commission rates. Implementing technology solutions such as booking management systems or automated customer service tools can also improve efficiency and reduce costs.
- Forming partnerships with other local businesses in the tourism ecosystem, such as restaurants, tour operators, or transportation services, can create synergies that benefit all parties. Collaborative marketing efforts and package deals can attract more customers and reduce dependency on OTAs for bookings.
- Entrepreneurs can join industry associations or advocacy groups that work to promote fair and transparent practices in the tourism industry. By advocating for regulations that ensure fair competition and pricing, entrepreneurs can help create a more level playing field in the OTA market.

## CONFLICT OF INTERESTS

None.

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None.

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