Budgeting for a Robust Internet Marketing Strategy in 2007
A Best Practices Guide to Aid in Developing the 2007 Hotel Online Marketing Budget

By Max Starkov and Jason Price

As many hotels enter the 2007 budget planning season, this article aims to help hoteliers construct a competitive Internet marketing budget. The hotel's overall competitiveness today is determined to a great extent by how well it manages its Internet marketing and distribution efforts. It is not a question of how big the budget should be, but rather what to include and how much to allocate in the Internet marketing budget for a meaningful ROI and online revenue growth. This article takes a closer look at some important aspects of Internet marketing in hospitality and what marketing activities and line items comprise the 2007 online marketing budget.

2006 may have been a banner year in hospitality, but how has this success translated into the planning of next year's marketing budget - especially as it relates to the online channel? While the hotel may have an internal formula for ROI, many hoteliers are confused as to what, where, and how much of the marketing budget should be devoted to the online channel.

The dynamic nature of the Internet further complicates the budget planning process. In an environment that consistently brings new fads, new online media formats and business models, new competitors, and new tools and methods to market a hotel via the web, how does a hotel marketer accurately and sanely plan next year's Internet marketing budget?

Direct Online Distribution

This year 29%-30% of all revenues in hospitality in the U.S. will be generated from the Internet and another quarter will be directly influenced by online research, but booked offline. By 2010 the Internet will contribute over 45% of all travel-related bookings in North America.

Three very distinct trends have emerged over the past several years which have to be taken into consideration when planning your 2007 Internet marketing budget:
- Direct online distribution is the way to do business on the Web. More hotels are selling online than ever before. Greater amounts of room inventory, at higher ADRs, are being sold direct to consumer via the direct online channel—the hotel's own website.
- The negative impact of third-party online intermediaries (TPIs) is still felt throughout the industry, but to a lesser degree. The ratio between the direct and indirect online channel continues to improve in favor of the direct channel: from 52:48 back in 2002 to 56:44 in 2006 and is projected at 62:38 by 2008. Some major brands already enjoy very healthy 80:20 direct vs. indirect online channel ratios.
- Further erosion of the GDS channel is self evident: less than 17% of hotel inventory in the US is sold via the GDS today, and the number of retail travel

agency locations in the US in 2006 has declined to 19,300 vs. more than 35,000 in 1996.

The cost to sell directly to consumers via the hotel website can be as low as $3-$5 per transaction. Compare this to the hefty distribution costs via the GDS (as high as $27 for a typical 2 night stay at $100 per night), and the third-party online intermediaries such as Expedia, Travelocity, and Orbitz ($50+ for a typical 2 night stay at $100 per night). Reducing the reliance on these two very expensive channels will directly affect the bottom line.

The potential to shift even more revenue through your own direct channel has never been greater. Hopefully the following guidelines will help you define your online marketing budget in the years to come.

Case Study A:

Shifting Market Share from the Indirect to Direct Online Channel

A prestigious California resort with rich meetings, spa and golf product redesigned and launched its new website two years ago. The re-launch included website optimization, a destination web strategy, email capture and newsletters, and search marketing. The resort also adopted a new anti third-party online intermediary (TPIs) strategy and launched a very aggressive direct online distribution strategy, and in the course of two fiscal years tripled its Internet marketing budget.

As a result in 2005 bookings via the property website increased by 78% and revenues by 79% compared to 2004. In 2006 direct bookings are expected to grow by a further 54% and revenues by 62% vs. 2005. In the same time bookings from TPIs decreased by 75%. This significant channel shift and realized higher ADRs from the direct bookings more than offset the increased Internet marketing budget, and allowed the property to re-claim "ownership" and establish interactive relationships with its customers.

Framework of the Online Marketing Budget

The shift from more expensive to less expensive distribution channels has become the norm in hospitality. Therefore lessening your dependence on higher cost channels and driving more revenues through your own website should become the main objective of your 2007 marketing budget. Here are the top items to include as you devise the Internet marketing budget for next year. Concluding case studies further illustrate the impact of your online marketing budget.

Internet Marketing Budget Considerations:
- Website Redesign – Overhauling the look and feel and bringing the site up to par with 2007 online user expectations

- Website Optimization – Enhancing the website navigation, keyword rich body copy, and all the necessary optimization, visible and invisible
- eCRM and establishing interactive relationships with your customers
- Search Engine Marketing – Launching pay per click marketing, paid inclusion marketing, local search, and vertical search marketing
- Strategic Linking – Building incoming links from highly authoritative websites
- Email Marketing Strategies – Growing the hotel's own opt-in email list and launching frequent and relevant email communications with your customers and prospects
- Email and Online Sponsorships to potential customers in your feeder markets and to your key market segments (e.g. family travelers, romance and couples, meeting planners, wedding planners, etc.)
- Destination Web Strategy – Making your hotel the "hero" of its destination
- Display Advertising – Placing banners on highly relevant sites to grow brand recognition and drive traffic and incremental revenues
- Consumer Generated Media (CGM), including blogs, trip planners, customer review sites, experience sharing, etc.
- Website Hosting and Maintenance – Ongoing content, image and functionality updates and enhancements
- Professional development and Internet marketing expertise – Partnering with leading hospitality experts in Internet distribution and marketing strategies. Work with a firm that is fully transparent on how they spend your marketing dollars and who will teach you the best practices in direct online distribution, and do not outsource this vital core competence to vendors that "keep you in the dark."
- The "Human Factor" – allocating funds for payroll for part-time or full time Internet marketing personnel.

Please Note: Which of these online marketing activities are necessary over a twelve month period depends on previous investments as well as hotel objectives.

Website Re-Design

Re-designing of the property stand-alone website and overhauling its content, imagery and functionality may be due. Typically, a hotel website has to be re-designed every 2-3 years, with ongoing content, rich media and functionality enhancements and updates in between re-designs.

Is the hotel website up to par with 2007 online user expectations? Does it adhere to best practices in hospitality websites? Is the website user-friendly, search engine-friendly and booker-friendly? Is it visually attractive and does it convey the richness of the hotel product and the destination? Does the website build brand equity or does it tarnish the brand image of the hotel? Does the site serve as a platform to establish interactive relationships with your customers? Is the site generating incremental revenues and ROIs at and above industry averages?

Answers to these questions can help hoteliers decide when and if the property website is due for a re-design. Partner with outside Internet marketing and distribution experts to audit your existing site and provide unbiased advice on whether you need a new website or if just a website optimization and copy enhancement would be sufficient for the time being.

If a website re-design is due in 2007, you have to budget for the actual look-and-feel re-design, new imagery throughout the site, customer segmentation and copy overhaul, optimization of the keyword density, page titles, description and meta tags.

Case Study B:

<u>To Launch or Not to Launch a Franchisee's Independent Website</u>

The decision to launch an independent (stand-alone) franchisee website depends on the scale of the property (luxury, midscale, budget), location of the property (a tier 1 city vs. small town USA), and range of products and customer segments served (full service hotel, spa services, meetings, weddings, etc, vs. simply rooms only). Another important decision is the business culture of the owners. If you are willing to take control and embrace the online channel, have decided to define your own Internet-destiny, and have accepted once and for all that whatever the major brand can do for you they have already done, then making the decision to launch an independent franchisee website will be successful.

Please note that not all franchisees need their own independent website outside of the major brand. The added expense may not be necessary and the funds could be utilized for marketing the property instead. Sometimes it makes better business sense to use the property section/pages within the brand site to market your franchised property online. Copy and optimization changes in addition to a reasonable search marketing budget may prove sufficient as a first step to compete online and do everything above and beyond what the brand is doing for you.

Here is the experience in this respect of one of HeBS' clients:

A franchisee on the west coast, part of a major global brand, launched an independent website in 2004. The site was optimized for the search engines, employs search engine marketing, participates in strategic linking, and performs email marketing on a monthly basis. Ongoing changes were made to upgrade the look and feel of the design and add more and better photos, a virtual tour, and local destination content. By Sept 2006, the year-to-date revenues generated from the independent franchisee website was $550,000. The major brand website revenue generated for the property for the same period was $518,000.

What would the effect have been without the franchisee's own online presence? In our view an estimated one-third of the half-million dollar revenues would have gone to the

competition; one-third would have gone to the intermediaries, and one-third to the major brand website. In any case a big chunk of the incremental bookings and revenues (over 65%-70%) would have been lost to the competition or to the indirect online channel.

Website Optimization

Direct Online Marketing and Distribution starts and ends with the hotel website, so the goal is clear: create a fully optimized website and drastically improve website user-friendliness, search engine-friendliness and travel booker-friendliness. This is achieved through a website optimization strategy which, if executed well, will inevitably enhance the website usability and performance, improve visibility on the Internet, increase conversion rates and ROIs, and boost Internet-related *direct-to-consumer bookings*.

A website optimization strategy is an ongoing process that involves turning the hotel website into a 24/7 sales force. It incorporates customer behavior and website usability studies to reflect best practices in 2007 online searching and purchasing habits. It continuously enhances and optimizes the contents and key features of the website, and addresses important issues such as keyword density and tags, customer segmentation, conversion ratios, eCRM issues, trust building and consumer confidence issues, etc.

There are a number of ongoing programs and activities the hotel has to budget for that will help further convert lookers to bookers and grow online revenues. At a minimum, in your 2007 budget you have to provision for the optimization of the keyword density, page titles, description and meta tags.

eCRM Strategy

This new dramatic shift from offline to online distribution in hospitality has turned the hotel website and its related online marketing initiatives into the most important and potent e-CRM tool. The hotel website has become the "first point of contact" with an overwhelming majority of hotel customers.

An eCRM Strategy allows hoteliers to engage customers in personalized and mutually beneficial interactive relationships, and to increase conversions while selling more efficiently. Hoteliers should make it their mission in 2007 to build interactive relationships with customers in order to increase repeat business, boost revenues, and retain loyalty.

In the upcoming year you have to budget for the overhaul of the customer support features on the website, enhancing the FAQ and customer feedback features, establishing monthly frequency of your email newsletters to your opt-in list, as well as enhance the confirmation, pre-arrival and post-stay email communications with your customers.

Search Marketing

Search engines are an essential component of the hotel direct online distribution strategy: According to Forrester research about 80% of overall website visits begin in a search engine or a directory service. DoubleClick's recent study confirmed that nearly three out of four travel buyers consulted search engines before making a purchase. The demand and influence of search engines in hospitality are astounding and must not be overlooked.

Paid Search Marketing has become the most popular online advertising format and over 40% of all online advertising dollars will be spent on this format. Search marketing includes organic search, keyword buys (PPC or Pay-per-Click), local search, paid inclusion search, and meta search marketing. All of these are applicable to any hotel Internet marketing strategy and should be reflected in the 2007 budget.

For 2007 you have to plan a monthly budget for keyword buys (PPC) campaigns on Google, Yahoo and MSN, local search, as well as annual search engine registration fees and ongoing content enhancements and optimizations of the keyword density, page titles, description and meta tags.

Strategic Linking and Link Popularity

Strategic Linking is the business strategy to establish links from highly relevant and authoritative websites to your website, i.e. to build the "Link Popularity" of your hotel website. Strategic Linking in hospitality and its important by-product, Link Popularity, are part of a hotelier's toolkit for building a robust Web presence and taking advantage of the Direct Online Channel. Strategic Linking achieves two important goals: a) exposes your website to incremental traffic and highly qualified potential bookers, and b) builds your website's Link Popularity, a crucial criteria used by the search engines to determine how to rank the website in the search engine results.

Strategic linking is an ongoing process that has to be budgeted for in 2007. It helps position the hotel website at all direct "points of contact" with potential Internet travel bookers, and boosts the organic rankings on the search engines.

Your Internet marketing budget for 2007 must include a monthly allowance for building strategic linking to your website from "affinity" sites that are relevant to your key market segments and feeder markets.

Email Marketing Strategy

Email marketing is a crucial component of the hotel's overall Internet marketing and online distribution strategy. Email marketing can be used successfully as a *direct response vehicle* (short-term, results-oriented) or as a *branding tool* (long-term and strategic goals). On the other hand email marketing to your own email list is one of the

least expensive online marketing formats. Therefore creating a robust email marketing strategy and provisioning for it in the 2007 online marketing budget could have a long-term positive impact. The email strategy should include at a minimum: customer email capture initiatives (online and offline), email marketing to the hotel's own opt-in list, email sponsorships and marketing to key market segments and in key feeder markets.

This coming year you have to budget for online and offline customer email capture initiatives, incentives and sweepstakes, monthly email newsletters and promotions, and seasonal emails sponsorships.

Destination Web Strategy

Online travel planning is destination-sensitive. Your property does not exist in isolation of its location and has a much better chance on the Web if presented as an integral part of its destination. Leverage the popularity of the destination for your property's benefit.

You must position your hotel as the "hero of its destination" and exploit all the area opportunities and local attributes to your advantage. This will help further index the site on the search engines and help discriminating customers choose your site over an intermediary or competitor.

Your 2007 budget has to include the creation of new destination content, area travel guides, attractions and things to do, enhancing the mapping and direction features on the website, updates to the area calendar of events, etc.

Online Display Advertising

Display advertising (banners) continues to be the second most-popular online advertising format. This year over 31% of all advertising dollars in the U.S. will be display ads (banners) related. HeBS' experience with banner ad campaigns over the past 10 years has proved very successful and has generated consistent ROIs in excess of 2600%-3000%. This online advertising format has proven to be far superior to any past offline or GDS marketing initiative.

Online display advertising could be rather inexpensive if planned and executed well and hoteliers should not consider it as a format reserved only for the big industry players. For 2007 hoteliers should consider banner ads on local destination portals, CVB sites, key market segment sites, and other sites synergistic to your business.

Also in 2007 you may want to include a line item to cover seasonal display ads on local portals, CVB and other relevant websites, or "affinity" sites that are important to your key market segments.

Consumer Generated Media (CGM)

Consumer-Generated Media (CGM) is online content created by anyone other than professional writers, publishers or journalists. It is a forum made available to Internet users via interactive technology applications. Blogs (corporate and social blogs), message boards, online forums, word-of-mouth/viral marketing on the Web, social networks, customer reviews and testimonials, trip planners, and experience sharing initiatives are the most common examples.

Is CGM a threat or an opportunity? Hotel marketers can benefit from CGM by "listening" to what customers have to say, and also promote their services on the newly emerging CGM sites and formats.

In next year's budget you may want to consider provisioning an allowance for partnering with outside Internet marketing and distribution experts to analyze your current product offering and key customer segments, the sources of unique expert knowledge at the property, and devise an action plan on how to take advantage of the CGM phenomenon.

Website Maintenance and Hosting

The hotel site requires ongoing maintenance as you will want to enhance content, imagery and functionality to the site. Hopefully your site traffic will grow which means more bandwidth consumption and perhaps higher hosting fees. Many hotels outsource these functions as website hosting and maintenance has become a commodity. Look for a professional website hosting and maintenance company. Require a hosting environment with a 99.9% network uptime guarantee. Require full transparency of hosting and website update costs and services.

In your 2007 budget you must include website hosting, provision for extra bandwidth, and monthly fees for website maintenance and updates.

eBusiness Professional Development

In this extremely dynamic online marketing environment, it is crucial to budget for eBusiness professional development services that could help you better understand Internet marketing and distribution, direct vs. indirect online channel strategy, how to gain competitive advantage and benefit from "best practices" and latest online industry trends, how to build your own robust Internet strategy, and take your direct-to-consumer online distribution and eMarketing efforts to the next level.

Direct online marketing and distribution is too important to ignore. Partner with outside Internet marketing experts who will teach you the best practices in direct online marketing and distribution. Educate yourself and your staff and develop new in-house core competences.

Ongoing eBusiness professional development consultations, on-site Internet marketing workshops for management and sales, attendance of online marketing and hospitality forums, seminars and conferences are some of the line items you have to plan for in your 2007 budget.

A Word about Choosing Your Internet Marketing Partner

Select a firm that is fully transparent on how they spend your marketing dollars. Be sure they will teach you the best practices in direct online marketing and distribution. You will need this information to plan for future years. You will also need to understand how much of the budget is being devoted to "pure" marketing vs. campaign management fees.

Do not outsource this vital core competence to an outside Internet marketing vendor that "keeps you in the dark."

Become a stakeholder. Ask yourself if you are more knowledgeable today in the art and science of Internet marketing verse a year ago. Do you speak the language of an eMarketing Manager and do you feel confident to teach others if you had to? Did your outside Internet marketing vendor teach you best practices and contribute to you and your staff's professional development and online marketing skills? What did your current Internet marketing budget miss and why? What marketing services were not performed this year and why? For 2007, insist on understanding from your outside marketing vendor what marketing services are being planned and why. How much will be spent on each of these services? What portion of the budget will be spent on "pure" marketing and what on campaign management fees? What portion of the hotel's overall marketing budget should be spent on Internet marketing?

Conclusion

The Internet has become the largest distribution channel in hospitality, far exceeding GDS and other traditional channels. The direct online channel has become the main focus and incremental revenue generator in hospitality. Naturally this channel demands its proper place and weight in the hotelier's 2007 marketing budget.

Hoteliers need a comprehensive Internet Marketing Strategy, rather than a fragmented and incomplete Internet marketing effort with ad hoc initiatives. Focusing only on certain aspects of the hotel Internet presence in isolation of the overall Internet marketing and distribution strategy will result in serious underutilization of the direct channel and missed revenue generating opportunities.

An effective Internet Marketing strategy utilizes all the market resources and channels available on the Internet. This includes implementing a robust website optimization strategy, eCRM strategy, search marketing strategy, email marketing strategy, strategic

linking, online sponsorships, consumer generated media, and display advertising. All of these strategies are well within the hoteliers' reach.

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