

A Research Study

Hospitality Industry Approach to Online Marketing:

Survey of Attitudes and Approaches



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Table of Contents

Background and Methodology	3
Executive Summary	4
Detailed Findings:	
Respondent Profiles.....	7
Chart: Sources of Information About Online Distribution.....	7
Profile of Participating Hotels.....	8
Chart: Hotel Size.....	8
Chart: Hotel Ownership.....	9
Chart: Hotel Types.....	10
Channels Utilized.....	11
Chart: Revenue by Distribution Channel.....	11
Chart: Usage of Distribution Channels.....	12
Managing Rates and Inventory.....	12
Booking Engines in Use.....	13
Chart: Booking Engines in Use	
Online Marketing Budgets.....	14
Chart: 2005 Online Budgets	
Management Decision making.....	15
Chart: Decision makers for Online TA Sales	
Projections for Room Demand.....	16
Projections for Sales and Marketing Budgets.....	17
Online Marketing Impact and Biggest Distribution Challenges.....	18
Chart: Major Distribution Challenges Next Five Years	
The \$100,000 Question.....	19
Chart: If I had \$100,000, I would spend it on...	

Presented by: HSMAI Foundation, NYU and TIG Global

Survey of Attitudes and Approaches: Hotel Internet Marketing and Distribution

Background

In the fourth quarter, 2005, a group of hotel directors of sales and revenue managers were surveyed through an online questionnaire to explore how internet marketing and distribution are being handled in U.S. hotels. There were sixty hotels represented in the study including a wide range of property types from branded downtown hotels, resorts, independents, upscale, midscale and suburban properties. There has been very little information available to describe the current attitudes about costs and benefits of online distribution from a unit level perspective in the hotel industry. This study was intended to provide an overview of this topic. Many hotels had their sales and revenue managers respond as a team to provide complete answers to the survey questions.

Methodology

TIG Global worked with the report authors, Cindy Estis Green and Mark Warner, on devising the survey topics. Cindy Estis Green is the managing partner of The Estis Group. Mark Warner is director of graduate programs and professor at the NYU Tisch Center for Hospitality, Tourism and Sports Management. Sue Heilbronner, Executive Vice President, Business Development was the representative at TIG Global. The HSMAI Foundation supplied the list of directors of sales and marketing and revenue managers. Jason Smith from the HSMAI Foundation set up the online survey in the online tool used for this purpose and distributed the messages with the survey attached to the selected member list. The HSMAI Foundation survey tool was used to collate the data and provide some analysis capability. Besides drafting the survey, Mark Warner did some further analysis on the data and Cindy Estis Green did the balance of the analysis and synthesized the data into this report. An incentive was offered by TIG Global to encourage participation. Two iPods were given to two respondents selected at random from those that returned a completed survey.

Executive Summary

In general, the surveyed hotels have seen increases in online traffic and are trying to gain expertise with the technology and marketing techniques to take advantage of this new form of demand. They have experimented with many channels of distribution; they have experienced success with some and have been frustrated with others. A great challenge is managing so many channels of distribution. One of the concerns that emerged revolved around the process of setting prices to optimize revenue and having consistency between prices in different distribution channels.

Overall, the respondents feel that maintaining awareness in this crowded cyber-marketplace is one of the most difficult tasks they face and they are willing to invest to develop their online presence, particularly through the use of their own website. There is a wide range of acceptance and utilization of online marketing within the hotel community. Without a doubt, the first choice for spending any incremental marketing funds against distribution channels would be on improved marketing of their website.

- The respondents in the survey were experienced sales and marketing executives along with revenue managers. The hotels in which they worked were generally 300-500 rooms in size and ran close to the industry average in occupancy: 70.7% in 2004 with higher occupancies expected for year end 2005. The skewed more upscale and were divided between chain-branded and independent.
- Industry organizations and the conferences they host are high on the list for go-to places to gain information and knowledge about online distribution. HSMIA and HEDNA were most often cited. In addition trade publications and networking with colleagues are important information sources.
- The channels of distribution that deliver benefit* to these hotels were divided 56% off-line (direct telephone to a reservation office) and 44% online (divided 20% GDS/TA and 24% own website and online TA).

*the revenue shares were self-reported so may not reflect actual financial records of each property

- The respondents rated their own website as more effective than any other *online* channel of distribution. They rated their off-line reservation department as the most effective at delivering business volume they want at the price they want. Meeting planner websites were considered least effective of all channels to deliver the desired business volume.
- Surprisingly, while almost all hotels had their own website, there were still a small number (10%) that did not. Of those who did, there is still a small number (10%) that did not yet offer booking capability on their website. There was a wide range of booking engines in use. Synxis and Pegasus were the most often named vendors after brand-supplied booking engines.
- The average spending for online marketing was just over \$50,000 per year. The range was from \$1,000 to \$180,000 and the most often cited range of spending was \$25,000-\$35,000 per year. While many hotels have begun to embrace the use of online marketing, fully one-fourth of the hotels claimed their online budget was “too small to note.”
- Revenue managers were on-site in most hotels and spend almost two and a half hours per day on channel management. The revenue manager is most often the decision maker on online travel agency usage with the directors of sales and marketing a close second.
- While many hotels are starting to use their online channels to collect customer profile information, there are more than one-third who are not. Just over one-half of the respondent hotels report actually using customer profile information to drive marketing campaigns.
- Most hotels expect increases in small groups and leisure market segments and relatively flat results in most other segments. They expect to spend more marketing dollars overall, particularly focusing increases in online initiatives. In spite of this added spending for online marketing, there is little change expected in sales staffing levels for the forthcoming year. It could be assumed that additional online funding would come from some overall budget increase and some shifting from print advertising, rather than sales staffing funds.
- While a minority of hotels actually documents their distribution strategy, the hotels that commit it to writing feel their efforts are well deployed.

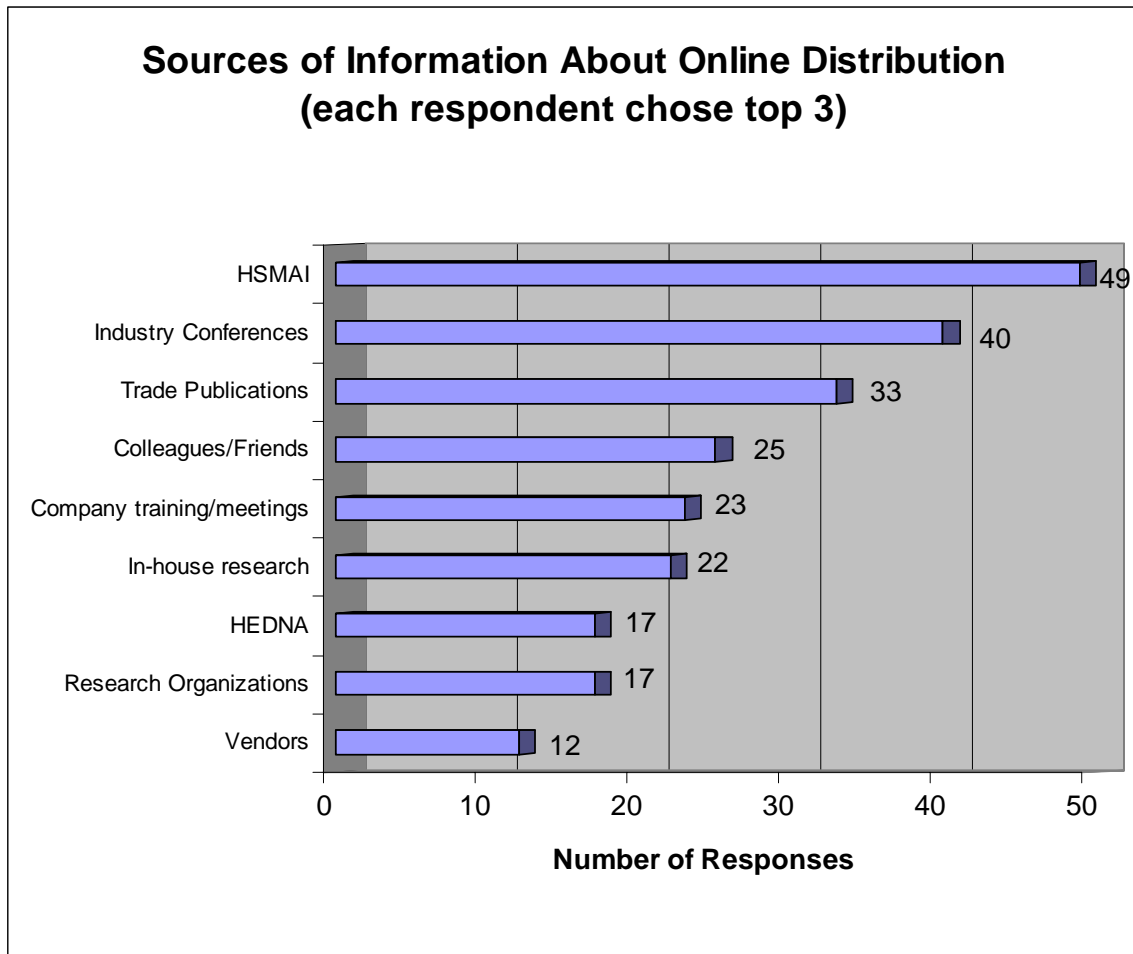
- The greatest area of concern for these hotels over the next five years is maintaining awareness of their property in the online space on their own website, through search engines and online travel agencies.
- Most hotels anticipate significant growth in online business volume with the average expected increase to be at least 50% by 2008 over 2005 levels. These projected increases were for business through their own website and third party websites and excluded changes in GDS volume.
- The online channel expected by most respondents to have the greatest impact is search engines followed by third party travel agencies.
- When asked how they would spend \$100,000 to improve distribution channels, the lion's share of the respondents indicated they would spend money on their own website and on the interactive media and search engine marketing that would further improve its results.

Detailed Findings

Respondent Profiles

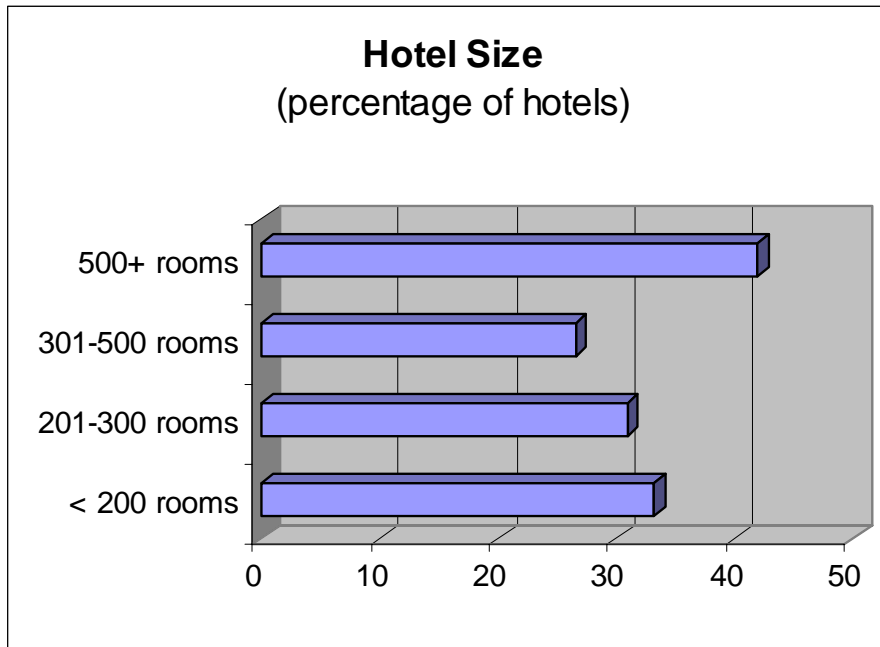
The survey participants were mainly directors of sales and marketing and revenue managers. The median age was close to 40 years old with slightly more than one-half younger than 40 and slightly less than one-half older than 40. Almost nine of ten respondents had over 10 years of hospitality experience with more than one-fourth having over 20 years of experience.

The managers surveyed were asked how they gain information about the topic of online distribution to gain knowledge on the subject. They were asked to select their top three sources of information from a list. While industry organizations like HSMIA and HEDNA are viewed as important sources with HSMIA as the strong leader, industry conferences, trade publications and the networking connections of colleagues and friends dominated the list.



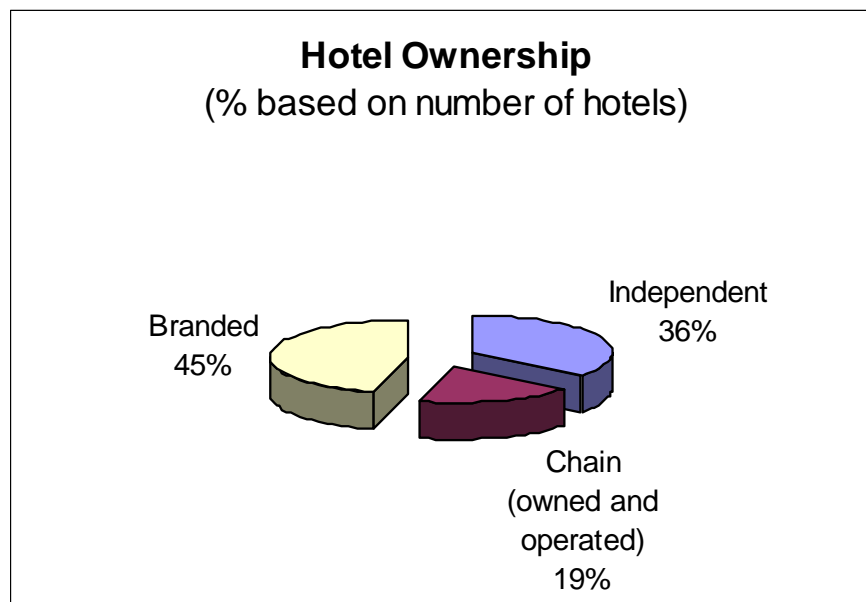
Profile of Participating Hotels

The hotels ran a collective occupancy in 2004 of 70.7% and all indications were for improvement in 2005 year-end occupancies. The hotels were largely transient oriented in their business base with an average transient base of 60%, an average group base of 30% and an average of 10% in other segments such as long-term stay or airline crew. The median size was slightly over 300 rooms with just under one-half being less than 300 rooms and just over one-half being over 300 rooms.



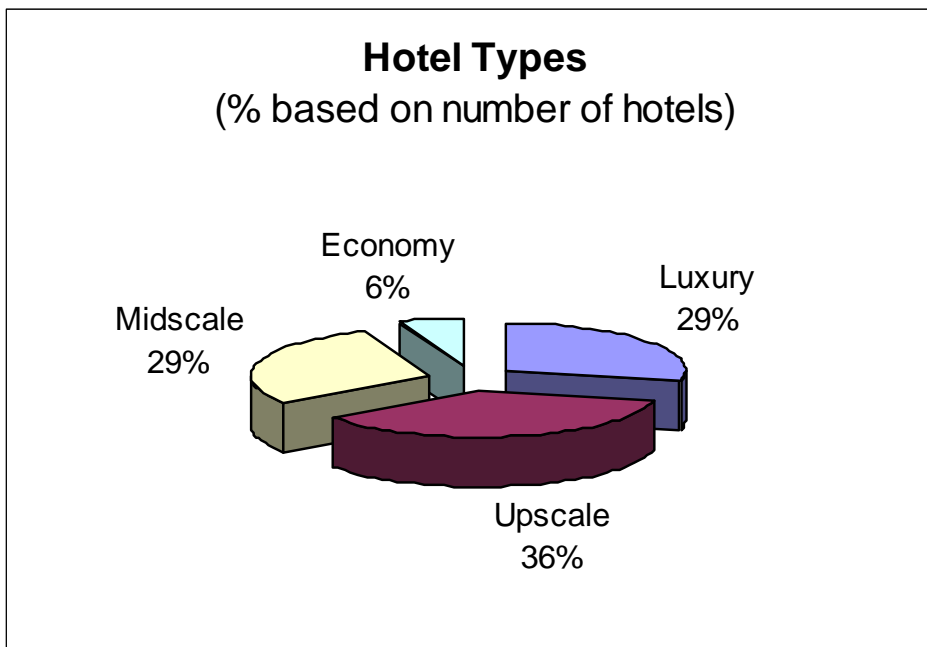
Hotel Ownership

Hotel ownership within the sample was divided between independent, chain-owned and branded (and independently owned).



Hotel Types

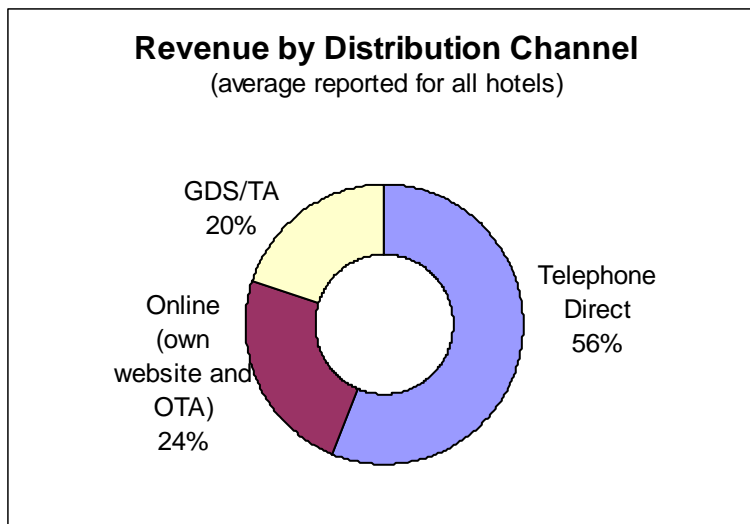
Hotel types skewed somewhat upscale with more of the participating hotels being upscale and luxury versus midscale and economy. This is likely due to more direct participation by hotel level managers in Internet marketing and distribution issues at the higher end hotels. In midscale and economy hotels, the staffing usually requires the property to depend on corporate or brand support in this area.



Channels Utilized with Projections in Growth from 2005 to 2008

Almost all respondent hotels benefited from travel agencies using GDS systems (98%), on-property reservations (95%), third party online travel agencies (93%). Just under eight in ten (78%) had their own website and the same number had access to a brand or company central reservation system. About six in ten (62%) of the participating hotels had utilized meeting planner websites.

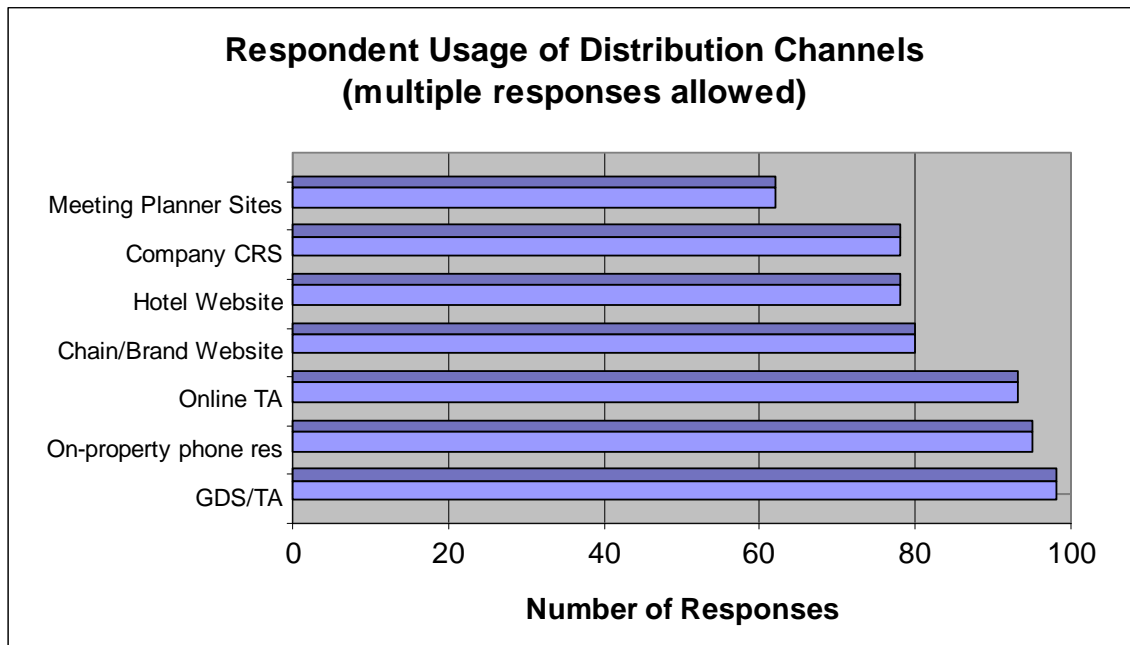
To put these channels into perspective, the participating hotels reported the percentage of business that comes through each major channel and not surprising, over one-half (56%) comes through telephone calls direct to the hotel. This would include their group volume also. The average volume reported through the hotel’s own website and third party online travel agencies was almost one-fourth (24%) and the remaining one in five dollars of room revenue (20%) come through GDS via the travel agency network.



When asked the percentage of room revenue that comes through the hotel’s own website and online travel agencies in 2005 versus the anticipated room revenue that will come through the same online channels (both excluding GDS) in 2008, the average expected increase was 50%. That is, if a hotel had 20% of its room revenue coming through online channels in 2005, it expects its 2006 volume from online sources to be 30%.

Effectiveness of Distribution Channels

In terms of effectiveness, four in ten (41%) who utilized meeting planner sites reported they were not effective in delivering business volume they want at the desired rate. In contrast, the hotel's own website was cited as highly effective or effective by almost half (47%) of those utilizing this channel and slightly less (42%) reported the same effectiveness for their chain/brand's website. The most resounding support was for the tried and true on-property reservation department which was rated as highly effective in delivering the desired business volume by over two-thirds (66%) of the responding hotel managers.

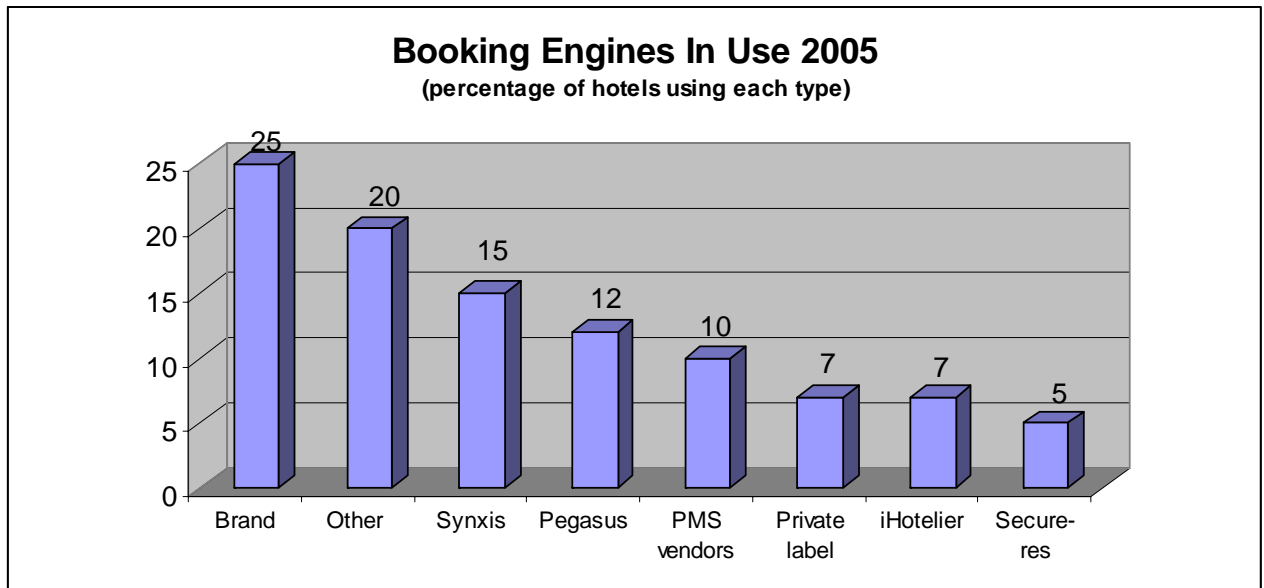


Managing the Rates and Inventory

While almost 9 in 10 hotels claim to have their own website, ten percent of these hotels do not provide site visitors the ability to book reservations online. As far as management of the hotel's inventory and rates on various distribution channels, ninety-two percent of the hotels report having a revenue manager employed by the hotel. Of this number, seven out of ten (71%) are dedicated to the specific hotel while the balance (29%) are shared with sister hotels. The revenue managers' report spending on average just over two hours per day (2.38 hours/day) on channel management work related to distribution channels. Four in ten (43%) claim to have a documented distribution channel strategy and a full 69% of those hotels feel their strategy is working effectively.

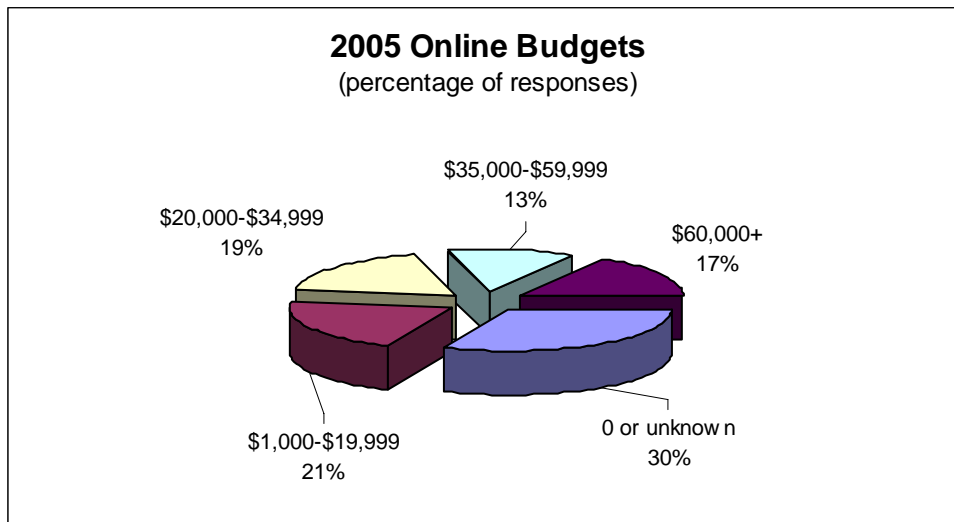
Booking Engines in Use

Other than utilizing the booking engine on the hotel brand websites for those hotels linking to their chain’s corporate sites, there was a mixture of booking engines being used including Synxis, Pegasus products (e.g. Netbooker), PMS provided booking engines (e.g. Springer Miller, Micros, HIS), iHotelier (by TravelClick) and Secure-res. There were various other solutions including private labeling of booking engines that are customized for a hotel’s use.



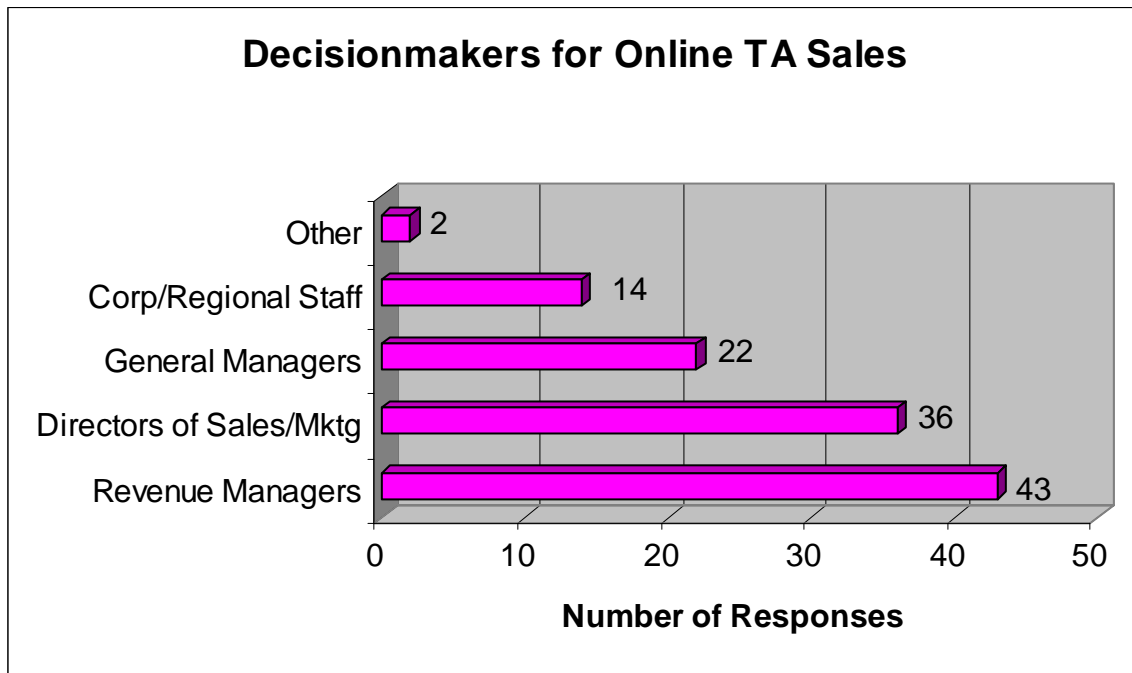
2005 Budget for Online Marketing

While the response to this question varied from “unknown” to “zero” to a percentage of marketing budget, for the slightly more than half (55%) of respondents who could cite a specific budget for online marketing, the average was \$52,294 per year. The range was from \$1000 to \$180,000 and the most frequently mentioned amounts were from \$25,000 to \$35,000. It was surprising that a full one-fourth of all respondents either did not know their online marketing budget or claimed that it was zero or too low to note. As for where the online distribution costs are budgeted, almost all respondents have a budget line in the sales and marketing budget related to this area (95%) and a small number also assign some part of the distribution budget to revenue management (15%). [Note: respondents could select multiple categories for this question.]



Management Decision making

There are some key decisions made regarding online marketing. Some of the most important relate to selection of third party online travel agencies (OTAs) and others relate to the use of distribution channel systems to gather useful customer information for subsequent marketing and customer service. The participating hotels report that the revenue manager is the one most frequently involved in decisions regarding the sale of room inventory through online travel agencies.

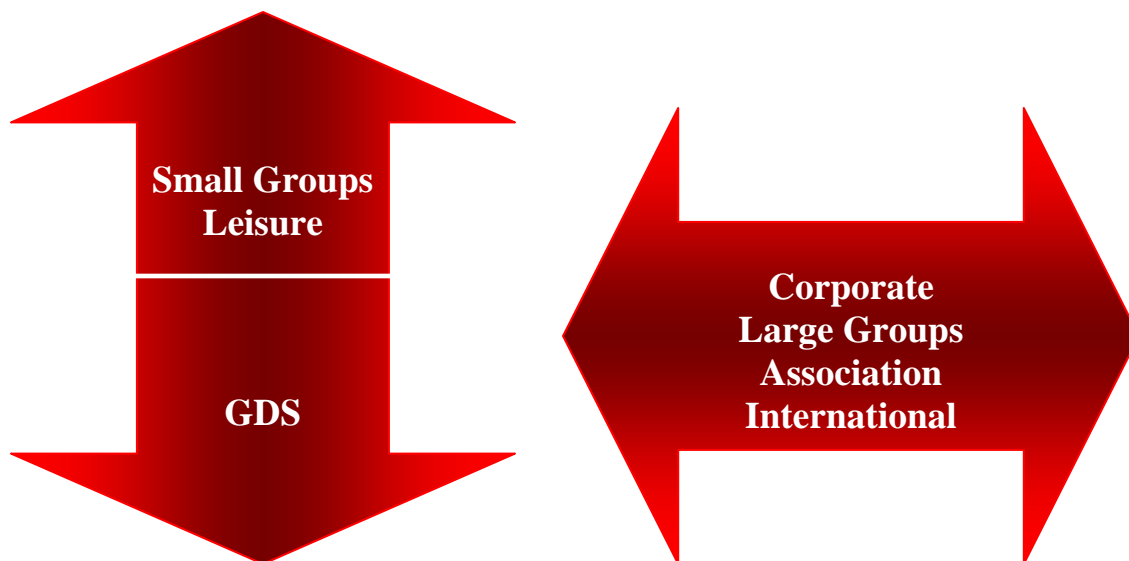


Only two-thirds (65%) of the hotels reported the collection of customer profile information through their distribution channel systems such as their website or third party intermediaries. Of this amount, more than eight in ten (84%) say they subsequently use this information to market products to their guests and establish customer relationships. Some examples of this could be collection of email addresses that are used to offer products or services at a later time.

Projections for Room Demand

When asked to speculate on the upcoming 12-month period, respondents were asked specifically about different market segments and whether indications were for an increase, decrease or a stable business volume in each segment. The most definitive increase cited by two-thirds of the hotels was for an upswing in small group meetings (<100 rooms) followed by more than one-half looking for increases in leisure demand. Corporate transient was the segment in which an equal number of hotels expect increases as those that expect the demand to hold steady.

More hotels expect a flat pattern in demand for large group business (>100 rooms), association group business and international inbound volume. Most hotels anticipated they would end 2005 with increased spending in marketing compared to the amount spent in 2004. There were no segments in which the majority of hotels expected a decline. The strongest indication of a decrease was with one in five hotels expecting a decline in GDS volume. The remaining eighty percent were split with slightly over half expecting an increase and the balance expecting the status quo.



Projections for Sales and Marketing Budgets

In the forthcoming twelve months, while most hotels surveyed expected their overall marketing spend in 2005 to exceed 2004 spending, the expectation varied slightly for specific budget items within the total. Rather than shifting funds from sales personnel to online sales and marketing efforts, a full two-thirds of the group expects the number of transient and group sales managers to remain stable, even in light of expected growth in small groups and in online volume (usually transient).

The only area expected by more than half of the hotels to show growth is Internet marketing spending. This is in sharp contrast to the only area where a decrease is expected by a large number of respondents (just under 40%)—spending in print advertising. Direct marketing and revenue management budgets were expected to remain unchanged by most hotels with a slightly lower number of hotels expecting increases in these areas.

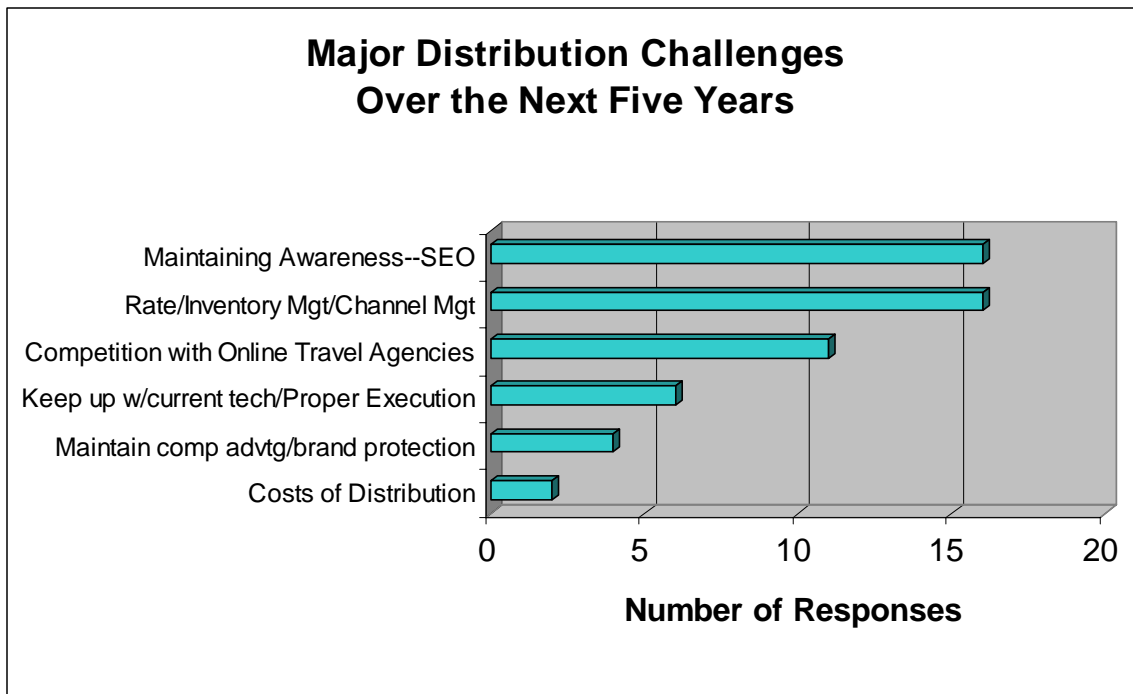


Impact of Online Marketing

Since online marketing is on the rise, the opinion about the influence of various distribution channels is of great interest. The expected impact of search engines is huge with more than eight in ten respondents anticipating an increase. While still strong, the use of online travel agencies, is expected to rise by fewer hotels (just over five in ten) than the impact of search engines. Over half of the hotels think online travel agency volume will rise as will online travel agency influence on leisure travel. All online channels are expected to increase in importance and impact.

Biggest Challenges Related to Distribution

All respondents were asked to cite the area of greatest challenge they envision over the next five years. The two most often cited challenges relate to maintaining their hotel’s awareness in a “noisy” and crowded marketplace and managing rates and allocation of inventory through each available channel of distribution. While important, a lesser concern is the competition from the third party online travel agencies.



The \$100,000 Question

The last area of inquiry involved how the respondents would spend \$100,000 to improve or enhance their distribution channel results. There was no doubt that at the top of the list for half the respondents was to spend more on their own websites, the marketing of their websites and all related online marketing communications such as SEO and media spending. The next priority was to improve the integration between online reservations, revenue management and other hotel systems along with overall improvement in revenue management tools.

