

Backspace

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With consumers increasingly using new channels to book hotel stays, the pressure is on hoteliers to understand which channels are most cost-effective to control distribution costs.

Contributed by Max Starkov



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Hoteliers have been rightfully confused by headlines about the changing landscape of hotel distribution, from articles titled “Google will change your hotel’s distribution strategy” and “Facebook as a commerce engine,” to “How to make Twitter sell” and “Mobile apps to impact hotel distribution.” In other articles online travel agents (OTAs) provide “free advice” on “how to grow your average daily rate without impacting occupancy.” On a daily basis, hotel owners, managers and operators are bombarded by far-fetched and often conflicting messages and claims.

There is no doubt hotel distribution has changed dramatically since the advent of the Internet. Online distribution, social media and the mobile Web have all changed how we connect with, engage and ultimately convert customers. But the fundamental principles of hotel distribution have not changed that much. Hoteliers need to focus on distribution channels that pass the litmus test; in other words, those that are cost-effective, generate the most bookings, protect rate parity and price integrity and reach the targeted customer segments.

Unintended channel share loss

Not all bookings are created equal, and when planning their distribution strategy, hoteliers should realize the existence of “The Law of Unintended Channel Share Loss” which states: Any booking via a more discounted channel (such as flash sales sites like Groupon, LivingLocal.com or SniqueAway.com) is one less booking for the same hotel via the hotel website, call center, GDS or OTA (in that order).

We live in a digital information cloud

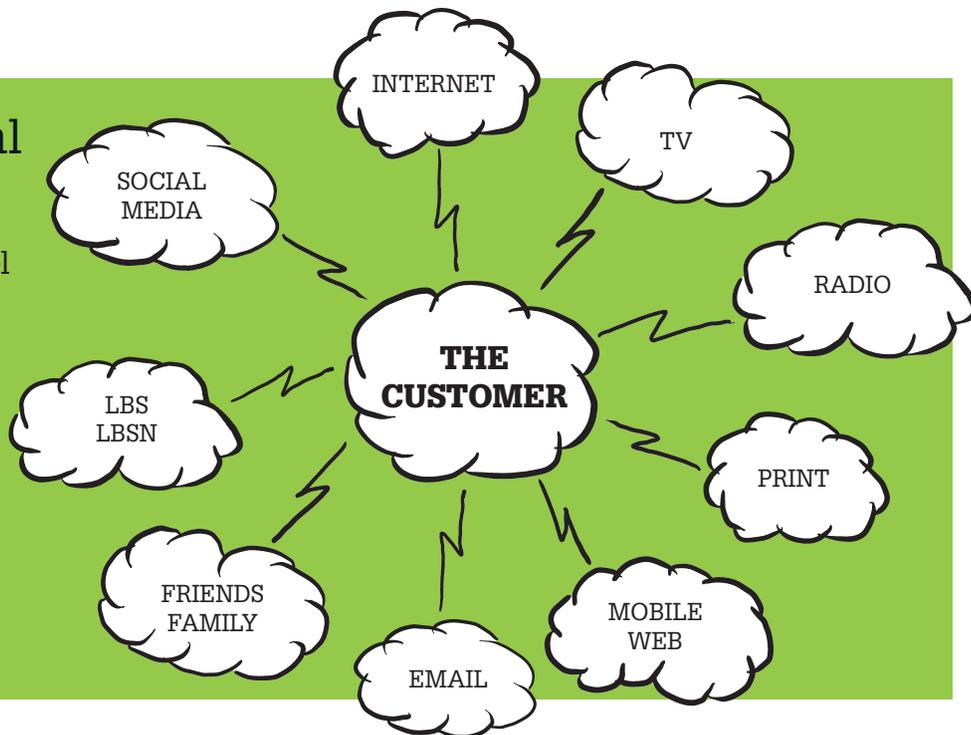
The hype-interactive travel consumers are channel and media agnostic

The travel consumer has become:

- Media channel agnostic
- Media format agnostic

The result?

Need for multi-channel customer engagement = Single customer engagement channel



The main focus and priority for any hotelier should be to sell as much inventory via the most cost-effective distribution channels that can potentially generate the most bookings, while preserving rate parity and price erosion.

Dramatic shift to online distribution

Voice and GDS travel agent, the traditional hotel reservation channels, have experienced consistent declines over the past 16 years. The eTRAK quarterly benchmarking report, which summarizes booking data from the top 30 hotel chains worldwide, illustrates well the significant shift from traditional to online channels:

Internet reservations: In Q3 2010, Internet bookings for the top 30 hotel brands reached 56.9% of the total brand CRS bookings (eTRAK Report). This constitutes a major share increase compared to the 37.6% level back in 2006.

GDS travel agent reservations: Share of GDS travel agent reservations dipped to one of its lowest points — only 19.6% of total brand CRS reservations. So, there was a clear shift from the GDS to the online channel. This is a major share decline compared to the 2006 level of 31.3%.

Voice channel reservations: In Q3 2010,

voice channel contribution amounted to 23.5% of total brand CRS bookings, compared to 31.3% back in 2006.

Since the beginning of the economic downturn in 2008, a number of very important developments occurred that profoundly changed hotel distribution and customer engagement in hospitality:

The hyper-interactive consumer: Over the past several years, a new breed of hyper-interactive travel consumers who are today's main hotel customers has emerged. The advent of social media and the mobile Web has accelerated the hyper-interactiveness of Internet users and travel consumers in general.

Social media: Engaging your customers via social marketing has become not only the norm, but is expected by past, current and future hotel guests.

Mobile Web: The mobile channel has become an important distribution channel worldwide. Hotel guests are already mobile-ready, and hoteliers have to respond adequately to this growing demand.

Channel convergence: Today's hyper-interactive travel consumers are seeing marketing messages across a variety of channels. Now more than ever, there is a convergence of new and traditional digital formats, of interactive and

offline marketing channels.

Multi-channel marketing: Hoteliers need to reach future and current customers at multiple points. Unleashing a promotional campaign simultaneously across all available marketing channels produces a compounded effect and far greater returns than each individual marketing format.

The direct online channel

Why aren't hoteliers investing more in the direct online channel? In addition to the obvious reason that selling your hotel via OTAs is the "lazy man's approach" to distribution, some hoteliers assume that selling through OTAs is "free." (Case study #1, right, proves that is not the case.)

Independent hotels are overwhelmed by the rapid shift from offline to online distribution and the sheer dynamics of the online channel and often fail to compete for their fair share of the market. There is a lack of understanding that Internet marketing is not an expense, but an investment with immediate returns at very high ROIs.

Franchised properties believe that the major hotel brands "take care of the Internet" for them, and they miss serious local revenue-generating opportunities.

'Fair share' of the OTA channel

The direct online channel is up to 15 times cheaper than the OTA channel, yet OTAs gained significant channel share during the recession. In Q3 2010, the OTA share of the CRS bookings for the top 30 hotel brands reached 37.5%, compared to 25.4% in Q3 of 2008. In 2007 the OTA share was at an all-time low of 24.1% (eTRAK).

Revenue leaked from hotels to OTAs in the form of abnormally high merchant commissions reached US\$5.4 billion in 2010 alone (HeBS research).

A scenario in which 100% of Internet bookings are made via the direct online channel is unlikely. OTAs and other intermediaries in the indirect online channel do play a needed role in certain situations — for instance, in dynamic packaging (air plus hotel, or air plus hotel plus car) for leisure destinations. In pre-Internet years, approximately 25% of all U.S. hotel bookings came via the indirect channel (travel agents, tour operators and wholesalers).

What should the OTA fair share be today? Sixteen years after the advent of the Internet, the most cost-efficient distribution channel ever, the OTA contribution should not be higher than 25% from all Internet bookings. What we should not be seeing is the current industry average of 40% OTA contribution.

The voice channel

Hoteliers are constantly underestimating the power of the voice channel as “old-fashioned,” yet in 2010 23.5% of all CRS bookings for the top 30 hotel brands came from the voice channel, according to eTRAK.

What is your call center conversion rate? HeBS research shows conversions as low as 5% of reservation calls. Hoteliers who pay attention to this channel enjoy a conversion rate of 40% or higher. In addition, seven out of 10 mobile reservations — bookings originating from mobile devices — are via calls to the hotel reservation office or call center.

The GDS travel agent channel

Though the number of travel agency locations has decreased drastically, this channel still generated 19.6% of all CRS bookings for the top 30 hotel

CASE STUDY #1:

How to add US\$750,000 to the bottom line

On an annualized basis, there is a significant difference in distribution cost between the direct online channel and OTAs for a typical New York City 300-room hotel:

- **Direct online bookings:** Cost = US\$105,120 at US\$10 per booking, 10,512 direct bookings (60% of online bookings)
- **OTA bookings:** Cost = US\$770,880 at US\$110 per booking (25% OTA markup), 7,008 bookings (40% of online bookings)

If the hypothetical 7,008 OTA bookings are instead made via the direct online channel at \$10 each, the bulk of the OTA distribution cost

— US\$700,800 — would go directly to the hotel's bottom line. This is nearly \$US750,000 added to the bottom line.

(Calculation based on 80% average occupancy rate, ADR of US\$220 and two-night stays; 40% of total bookings, or 17,520 bookings, being made via the Internet.)

- **The bottom line for hoteliers:** Invest in the direct online channel. Hoteliers must carefully employ ROI-centric initiatives including website redesign, website optimization and SEO, SEM, email marketing, online media and sponsorships, mobile marketing and proven social media initiatives.

What are the distribution costs per channel?

Direct online channel:

- **Hotel brand websites:** US\$2 to US\$5 per booking. Since there is no publicly available data on the subject, these are expert assessments.
- **Independent hotels and resorts:** US\$8.50 to US\$12.50 per booking (HeBS Research, based on 250,000 bookings in 2010 via hotel websites from a sample of HeBS's full-service hotel client portfolio).

Voice channel:

- **Major hotel brands:** US\$6 to US\$10 per booking. Again, there is no publicly available data on the subject. These assessments are based on call center statistics from other travel suppliers.
- **Independent hotels and resorts:** US\$10 to US\$15 per booking

Indirect online channel/OTAs:

- **Hotel brands:** US\$40 to US\$120 per booking. (Based on an average 20% merchant commission, two-night stays and ADRs ranging from US\$100 to US\$300 per night.)
- **Independent hotels and resorts:** US\$75 to US\$150 per booking. (Based

on an average 25% merchant commission, two-night stays and ADRs from US\$150 to US\$300 per night.)

GDS travel agent:

- **Hotel brands:** US\$24.50 to US\$66 per booking. (Based on GDS pass-through fees of US\$4.50 to US\$6, an average 10% travel agent commission, two-night stays and ADRs ranging from US\$100 to US\$300 per night.)
- **Independent hotels and resorts:** US\$42.85 to US\$74.50 per booking. (Based on GDS pass-through fees of US\$12.85 to US\$14.50, an average 10% travel agent commission, two-night stays and ADRs ranging from US\$150 to US\$300 per night.)

The direct online channel is by far the most cost-effective channel — 10 to 15 times cheaper than the OTA channel and four to 10 times cheaper than the GDS travel agent channel.

The direct online channel contributes to a significant number of voice reservations, as much as 40% of additional bookings, as confirmed by industry research.

brands in 2010, according to eTRAK.

Many hotels totally ignore this channel. Often hotel websites do not even pretend to position the hotel as “travel agent-friendly.” Frequently hotel and room descriptions on the GDSs were last updated in the previous century. Many hotels do not have any travel agent marketing initiatives.

Flash sales sites

Flash sales sites such as Groupon, LivingSocial or SniqueAway are not a new and revolutionary distribution channel, and many believe flash sale sites are a recessionary phenomenon.

To participate, hotels are required to sell rooms on these sites at more than a 50% discount. A recent Groupon sale for a Hyatt Regency in Chicago offered a discount of 62%. In addition, flash sales sites charge fees from 25% to 35% from the already discounted rate. For example, for a hotel with a best available rate (BAR) of US\$200, a typical 50% discount promotion on Groupon works in this fashion:

Member rate 50% of BAR = US\$100
 Groupon gets 35% commission = US\$35
 Hotel net = US\$65, or 67.5% discount from BAR

With travel demand rising, the quality of service providers using flash sales sites today has deteriorated immensely, constituting massage parlors, yoga studios, salsa dance classes and desperate restaurants.

The mobile channel

HeBS research and other industry sources show that in 2010, 1.5% to 2.5% of visitors to hotel websites came from mobile devices. Last year travel suppliers and OTAs reported a dramatic increase in mobile bookings, and Google saw a 3,000% increase in hotel mobile searches compared to 2009.

In 2011, independent or franchised hotels and resorts as well as multi-property hotel companies should focus on enhancing their mobile websites, improving mobile user experience, increasing “discoverability” via mobile search engine optimization (SEO) and search engine marketing (SEM) and making their mobile sites more interactive via mobile social media initiatives, sweepstakes and contests.

Social media

Let’s set the record straight: Social media is not a distribution channel in hospitality. Social media is a customer engagement channel.

There is no doubt that social media has changed how travel consumers research and plan travel, access travel information and perceive its credibility. Internet users are increasingly influenced by social networks and peer reviews. With a comprehensive social media strategy, hoteliers can create social media “buzz,” target receptive audiences and stimulate hotel website visits, interactions and bookings.

Social marketing is becoming a larger component of hotels’ marketing mix and part of the comprehensive direct online channel strategy.

Naturally, it is important to use the right ROI metrics to measure the success of social marketing efforts. Social media and social marketing initiatives should be reviewed within the context of the impact of a hotel’s multi-channel marketing strategy.

The future of hotel distribution

Today’s travel consumer is exposed to and engaged by so many snippets of information coming from all directions that they live in a perpetual “digital information cloud.” Consumers no longer keep track of where exactly they have been exposed to information or marketing content. They no longer care what format the information or content they have been exposed to is in (email, tweet, Facebook post), and they no longer differentiate between media channels and content formats. As a result, the travel consumer has become channel- and format-agnostic.

In other words, the convergence of marketing/media channels and the new hyper-interactive travel consumer has led to the emergence of one single customer engagement channel.

This new channel demands a completely new approach to hotel marketing and distribution. Mastering the direct online channel and all of its segments — traditional Web, SEM, SEO, email, social media, mobile Web — is a crucial step in this direction.

Reservation sources for major hotel brands

Top hotel brands’ CRS hotel bookings	Share of CRS reservations - Q3 2010	Share of total CRS reservations
Internet (online channel)	56.9%	
Including:		
Direct: brand website	62.5%	35.56%
Indirect: OTAs	37.5%	21.34%
GDS travel agent	19.6%	19.6%
Voice	23.5%	23.5%
Total for CRSs	100.0%	100.0%

Source: 2010 eTRAK, HeBS (reservation sources for transient business and leisure travelers for the top 30 hotel brands and chains)

CASE STUDY #2:

ROI from the direct online channel in 2010

The following case study, based on HeBS’s full-service hotel client portfolio, clearly shows that investments in the direct online channel pay off handsomely:

- **Return on ad spent (ROAS):** 2770% (28:1)
- **Total return on investment (ROI):** 2237% (23:1)

(Based on HeBS’s full-service client portfolio. Full-service defined as website design, SEO, SEM, email marketing, social media, mobile marketing, online media, etc.)

Hoteliers must find a way to dominate the digital information cloud with their own marketing message and customer interactions, or the OTAs and the competition will control the conversation.

In 2011 hoteliers need to invest in technologies and expertise to better execute multi-channel marketing and distribution strategies, the antidote to the current silo approach.

Max Starkov is president and CEO of Hospitality eBusiness Strategies (HeBS), a full-service digital marketing and direct online channel strategy firm.