

11CHANGES.COM

HOTEL yearbook 2013

Scenarios for the year ahead

Puneet Chhatwal, Steigenberger's new CEO, shares his thoughts on the challenges in the year ahead

Dorchester Collection CEO Chris Cowdray on leadership

How will 2013 shape up for the key hotel markets worldwide?
30 exclusive country reports from Horwath HTL

Special section: "Spa 2020"
Leading experts explore the next decade in the spa industry

How is your company visualizing its future business landscape?
Woody Wade on scenario planning in the hotel industry

This excerpt from the Hotel Yearbook 2013 is brought to you by :

11CHANGES

WADE & COMPANY

Wade & Company is a Lausanne-based consultancy that helps senior managers in the hospitality industry better understand how their future “business landscape” could change, affecting their competitiveness and creating new opportunities and challenges. Its scenario planning workshops give management teams a creative yet structured approach for envisaging alternative ways their future operating environment could realistically unfold over the next few years, depending on how current uncertainties develop. With these eye-opening insights, Wade & Company’s clients can maximize the flexibility of their strategic plans and be better prepared for whatever future dies arise. More info is at www.11changes.com.

Horwath HTL

Hotel, Tourism and Leisure

HORWATH HTL

Horwath Hotel, Tourism and Leisure consulting are the world’s number one hospitality consulting organisation, operating since 1915. Horwath HTL are the industry choice; a global network offering complete solutions in markets both local and international. Through involvement in thousands of projects over many years, Horwath HTL have amassed extensive, in-depth knowledge and understanding of the needs of hotel & real estate companies and financial institutions.

Horwath HTL are the world’s largest consulting organisation specialised in the hospitality industry, with 50 offices in 39 countries. They are recognised as the pre-eminent specialist in Hotels, Tourism and Leisure, providing solutions through a combination of international experience and expert local knowledge.

HSYNDICATE

HSYNDICATE

With an exclusive focus on global hospitality and tourism, Hsyndicate.org (the Hospitality Syndicate) provides electronic news publication, syndication and distribution on behalf of some 750 organizations in the hospitality vertical. Hsyndicate helps its members to reach highly targeted audience-segments in the exploding new-media landscape within hospitality. With the central idea ‘ONE Industry, ONE Network’, Hsyndicate merges historically fragmented industry intelligence into a single online information and knowledge resource serving the information-needs of targeted audience-groups throughout the hospitality, travel & tourism industries... serving professionals relying on Hsyndicate’s specific and context-relevant intelligence delivered to them when they need it and how they need it.

Online Travel Agencies : the empire strikes back ?

WHAT CAN THE HOTEL INDUSTRY EXPECT TO SEE IN THE RAPIDLY EVOLVING OTA ARENA IN 2013 ? WE ASKED **PROF. PETER O'CONNOR**, THE ACADEMIC DIRECTOR OF THE MBA IN HOSPITALITY MANAGEMENT AT FRANCE'S PRESTIGIOUS **ESSEC BUSINESS SCHOOL** AND A SHARP OBSERVER OF THIS MARKET, FOR HIS THOUGHTS ON THE COMING YEAR'S POSSIBLE DEVELOPMENTS.

The hotel online distribution landscape has changed significantly over the past few years. Online channels have become vitally important, with the vast majority of today's customers making their travel plans online, and a corresponding positive effect on online booking levels. In the US hotel sector, online sales can now account for over 50 % of a typical hotel's room revenue. Although other parts of the world lag considerably in terms of online penetration, figures of 35 % of bookings flowing through online channels are not unusual for European hotels, with significant further growth certain in the short run.

However, a bone of contention for many hotels is the source of their online bookings. Within the highly consolidated US market, hotel chains have managed to leverage their brand power, technical expertise and deep pockets to ensure that the majority of electronic bookings flow through their direct "brand.com" websites. In Europe, where the market is more fragmented and global chains have much less presence, the proliferation of small and independent properties means that the majority of online hotel bookings flow not directly but through one or another of the various Online Travel Agents (OTAs).

Hoteliers have traditionally had a love/hate relationship with the OTAs. Although grateful for their business when times are bad, most hoteliers begrudge the "outrageous" commissions they pay for bookings, as well as complaining vocally about unfair competition as the OTAs skilfully position themselves between the hotel and the customer.

OTAS ARE GOOD FOR YOU

To be clear : OTAs do add value. Using their electronic marketing expertise, they help hoteliers sell more rooms, allowing them to reach customers and markets that would be otherwise impossible. OTAs deliver heads-in-beds and do so on a totally pay-per-performance basis. In effect, they continuously market the hotel property (the so-called billboard effect) to a global audience, but only get paid if they manage to complete a sale by making a booking.

And even though OTAs are perceived as expensive, trying to drive similar levels of business directly would necessitate major

investment on the part of the hotel in search engine positioning, website optimization, not to mention booking engine and credit card fees – all of which would quickly make the 18 % to 25 % paid to an OTA look like peanuts.

BIGGER AND MORE POWERFUL

The distribution challenge currently facing the hotel sector is therefore not the presence of OTAs per se in their online distribution mix. In fact, in today's highly competitive world, hotels need to accept OTAs as an essential partner in their distribution process. The real issue is that, as a result of accelerated growth and strategic acquisitions, certain OTA players have become so big that they have started to dominate the market, leveraging their market size to effectively dictate terms to hotel suppliers and customers alike.

At the European level, this is currently happening with industry giants Expedia Inc. and Booking.com, both of whom are major suppliers of business to the majority of European hotels. Recent analysis from Nomura claims that these two companies collectively control over 65 % of European indirect online hotel sales, although certain other, more regionally focused, companies (particularly HRS/hotel.de) do have significant critical mass in particular markets (in this case Germany). If hotels want to profit from the phenomenal growth in the online sale of hotel rooms, they have to do business with one or more of a very small number of highly influential (or should we say "dominant") companies.

Unfortunately, abuse often goes hand in hand with dominance. Facing increased regulatory scrutiny in both the UK and the US in relation to allegations of price fixing, Expedia Inc. is trying to transform its previously precious merchant model by push suppliers into accepting an agency model even though ultimately, the hotel will end up paying a higher price for each reservation delivered.

Similarly, Booking.com, previously regarded as the most supplier-friendly of the OTAs, has started to dictate far more stringent terms and conditions to its hotel suppliers as it has grown in power. For example, the company has started recently

restricting hotels' access to previously available guest contact details, in effect ensuring that the customer's relationship is with the OTA rather than with the hotel itself. In addition, Booking.com has now started retaining cancelled room inventory to ensure that these rooms are subsequently resold through the system and that it receives its commission.

However, it is regional player HRS that has so far been the most blatant in terms of (ab)using its market position. Shortly after its takeover of competitor hotel.de, which in effect gave it control over nearly two-thirds of the German online hotel market, the company calmly announced that not only would it charge hotels a higher commission in the future, but if a company wanted to be distributed through the system, it had to provide both best available rate and last-room availability. Anyone who was not willing to comply could take their business elsewhere.

CAN WE EXPECT ACTION IN 2013?

As consolidation continues in the online travel space, with smaller companies being swallowed up by the major players, such dominant behavior is likely to accelerate. How then can hoteliers battle this like-it-or-lump-it approach? Given their market power, the only way that OTAs will concede is if they are forced to do so. And there are basically two ways to accomplish this – industry pressure or regulatory action.

The hotel industry is far too fragmented, however, to be able to organize the concerted effort needed to pressure such powerful companies. Unlike the airline sector, for example, even when considered together, the hotel chains control much too small a percentage of room inventory to be able to challenge current business practices. In the extremely unlikely event of a boycott, the OTAs could simply bypass protestors and focus on those not participating in the action. Past experience has also shown that hoteliers are not good at cooperating for the common good – a fact evidenced by the lack of a global lobbying organization on behalf of the sector.

And unfortunately, regulatory action also seems unlikely. Recent mergers in the OTA sector have been scrutinized by



the competition authorities. Although subsequently allowed, some hope is offered by the closer examination that regulators seem to be paying to how the sector operates, with the aforementioned price fixing and anti-competitive behavior cases sure to have a long-term effect.

Tough love from the OTAs thus looks likely to continue, placing hotels in an increasingly hostile situation, particularly in 2013. To survive, hotels need to become much more proactive about managing their portfolio of distribution channels. In particular, they need to develop and cultivate relationships with not just the major players but with multiple alternative prospects. Smaller niche players need to be nurtured to avoid becoming overly dependent on any one source of business.

When it comes to distribution, hotels need to stop their short-term thinking and look at the broader picture. If they continue to endlessly feed the major OTAs with inventory and special rates, soon they will be left with no alternatives. A broader, more portfolio based, approach to distribution is needed to minimize risk and ensure hotel success in the long run. ■

- Internationally recognised.
- Engaging the world's foremost industry professionals and professors.
- Demanding, thorough, and conducted exclusively in English.
- France's premier hospitality MBA rigorously prepares future managers for career success like no other.

30 years of expertise have shaped ESSEC Hospitality into the program it is today, attracting multi-cultural, multi-lingual participants from around the globe. With several years' professional experience behind them, our students embrace the challenge of a highly-focused program designed to make them experts in all aspects of hospitality management, refining their leadership qualities and joining a prestigious network of over 1,400 alumni in more than 55 countries.

One program, two tracks

The one-year, post-experience hospitality track is tailored toward more experienced professionals wishing to build their competencies, enhance their career prospects, or begin a career in the hospitality industry.

The two-year, hospitality track is designed for young graduates with a hotel school, university, or business school degree seeking to build and refine their knowledge through graduate studies.

At the ESSEC MBA in Hospitality Management (IMHI), our focus is on the practical as well as the academic, on industry engagement as well as expert knowledge. You will learn best practices in the classroom, and implement them in the real world. Five areas of concentration allow you to focus your studies on those aspects of the hospitality industry that interest you most: luxury services management, e-commerce, real estate and development, entrepreneurship, and general management.

And a culminating field project will demand that you set down your textbooks and put your new knowledge to the test in a real life consulting situation.

For more information: www.imhi.com

Contact: harris@essec.edu

ESSEC Hospitality Executive Education

Short Courses/Certifications

Refresh your skill set or obtain new knowledge

- Designed for operational / corporate mid-senior-level managers.
- Concentrated 2.5 day modules held at ESSEC Executive Education in Paris's La Défense.
- Courses can be taken individually, or combined into packages leading to an ESSEC Certification.

Hotel Electronic Distribution
Managing Social Media and User Reviews
Hospitality Revenue Management
Customer Relationship Management
ESSEC Hospitality Certificate: Online Distribution

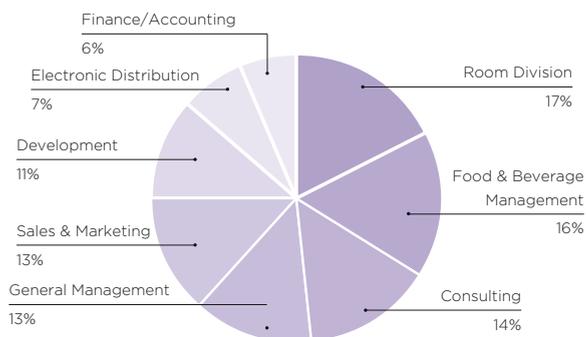
Financial Management for Hotel Managers
Hotel Valuation and Feasibility Studies
Hospitality Asset Management
Management Contracts, Franchising and Ownership
ESSEC Hospitality Certificate: Real Estate and Finance

Leading and Motivating in the Real World
Managing Change

For more information:
<http://executive-education.essec.fr>
Programs / Topic : Hospitality Management

Contact: lanrezac@essec.edu

**2011 MBA Hospitality Management (IMHI)
Graduates by job function**



**2011 MBA Hospitality Management (IMHI)
Graduates by company type**

