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METAMEDIARIES FORCING HOTELS TO ADAPT

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Introduction

The growing use of online shopping is drastically changing travel consumer behavior. This shift in behavior is transforming the business dynamics of hotels at a rate with which the industry has been unable to attain. The customer now has countless ways to interact with hotels, whether directly or indirectly, on all points of their experience: from the hotel search to the guest satisfaction survey. These new online points of interaction have allowed third parties to enter the travel industry. Online travel agencies (OTAs) were among the first to enter this realm. Today, new companies are attempting to compete with the OTAs through a different business model; while the OTAs specialize with a focus on helping hotels sell rooms, travel search companies have entered the field to control the search platform rather than the booking process itself. In light of these changes, hotels, both branded and independent, must understand the evolving market environment and respond in order to survive.



The price of acquiring a customer is rising, and hotel operators and owners should corroborate to adequately assess the costs and benefits of these new companies and services to maintain healthy profit levels. Consequently, there is a need for innovation on the brand and individual hotel level to increase competitiveness and sustain efficient operations.

Metamediaries

Travel-specific search has quickly become one of the most prominent areas of contention for new intermediaries. While OTAs continue to develop into a travel search engine, new companies are finding groundbreaking methods of adding further value within the search component. The emerging vendors do not want to develop a transaction-based site like the traditional OTA concept; rather, they aim to charge for passing along the consumer directly to the supplier site. For hotels, this means potential additional costs for a booking on top of the fees for each transaction completed through a third party.



It comes as no surprise that the lead players in search, including Google and Bing, are becoming

more renowned in the travel space and among some of the most influential new market entrants. Google has seen an opportunity to streamline the inefficient booking process for customers.¹ Rather than visiting multiple sites, a customer can use the Google Hotel Finder, Google's hotel-specific search engine. Many companies have since followed Google regarding this industry trend in trying to create a travel meta-search platform, essentially streamlining the booking process.

These companies specializing in meta-search, spurring the nickname of "metamediary," are fighting the traditional concept of using online travel agencies as the major medium in referring shoppers to a booking site. More content is being presented within the initial search, which potentially bypasses multiple visits to OTAs or hotel websites.² As a result, the metamediaries are able to gain control of the entire booking process by being the initial point of contact to consumers and, thus, have the ability to direct the consumer to additional websites or channels. The increase in media and advertising available upfront will require even more attention and management by hotels in order to remain competitive. Not only will hotels have to generate appropriate media within the search space to remain attractive to buyers, but they will also have to determine which channels are being used by metamediaries in directing consumers to their hotel.

Effects on Hotels

According to the article *Running Shoes, Bears, and Revenue Strategy*, written by Cindy Estis Green, CEO and co-founder of Kalibri Labs, there are three major threats that arise from increased dependence on third parties for business acquisition, which applies to large brands, small brands, and independent hotels alike:

Brand dilution through commoditization of hotel rooms: Allowing rooms to be sold mainly based on price will quickly undermine the value of the brand and train customers to think of hotel rooms as a commodity.

Diminished relationships with customers: The commoditization subsequently diminishes the relationship with customers. This is where intermediaries are taking more control.

Increased costs with little control: If the third

¹ Green, Cindy Estis. "Running Shoes, Bears, and Revenue Strategy." *Hospitality Upgrade* 2013: n. Web.

² Green, Cindy Estis., and Mark V. Lomanno. *Distribution Channel Analysis: A Guide for Hotels*. McLean: HSMIAI, 2012. Web.

parties have all of the leverage, hotels will not have very compelling arguments when negotiating fees for the services provided.³

Moreover, in an interview titled “On The Edge With Cindy Estis Green,” conducted by Duetto Research (a revenue-management solutions and consulting company) and posted on its blog in October of 2013, Green references a study that she conducted showing that the rate of growth for business acquisition costs is growing at 1.5 to 2 times the rate of growth of revenue. She states in the interview that “[Costs] vary by chain scale, brand, etc. I’ve had owners tell me they’re bringing in more money, but profit isn’t going up. That’s a big red flag. This isn’t slowing down. The big guys and mobile players have barely begun. Everything is going to cost a hotel and it’s really adding up.”⁴ The costs for hotels to attract customers will likely continue to grow as the large tech companies and search engines gain more consumer power.

Analyzing Profitability Accurately

With the growing number of distribution channels available to hotels and consumers, there needs to be a more specific and analytical approach to determine effectiveness and profitability. Although the new metamediaries will most likely reduce costs from OTAs due to the increased competition, distribution costs for hotels are expected to increase overall going forward.

A more comprehensive way to analyze the ROI on business acquisition spending through each individual channel is becoming increasingly important in determining the most efficient and profitable operation. Many factors will have to be considered in identifying the proper distribution mix for each individual hotel. Careful tracking of all media associated with referring travelers along to the hotel website is required, as it may include fees from multiple sites as the traveler navigates towards the end destination of booking.

Conclusion

Overall, hotel profitability has declined as intermediaries are stealing part of the revenue pie in a mature hospitality market. The industry is

recovering, but the cost to maintain a presence in a dynamic digital marketplace against new market entrants that hold a strategic position relative to technology and marketing resources is a major struggle. Some of the largest and most influential companies in technology and media have decided to enter into the travel space to establish a new form of intermediary built on the meta-search model. These metamediaries have created a market disruption in which hotels must react to in order to combat diminishing profitability.

According to Sloan Dean, CRME, Vice President of Revenue Optimization for Ashford Hospitality Trust, brands need to be much more forward-thinking in order to compete with intermediaries. In the past, brands have been more of late adopters, while OTAs and other intermediaries are much more early adopters. One example he noted is that meta-search and OTA mobile apps have experienced 400–500% more downloads than the apps produced by the brands as a result of timing and development. Moving forward, brands will have to break away from outdated traditions or operations by becoming more innovative through implementation of meaningful analytics.

In the book *Revenue Management: Hard-Core Tactics for Market Domination*, written by Robert Cross 17 years ago, “advances in computer technology are facilitating the ability to accumulate and manipulate immense amounts of data, and from this information comes critical knowledge required to implement revenue management.” This concept still holds true today; being able to gain knowledge and form good decisions from these data has posed significant opportunities. Partly due to a departmentalized focus on hotel operations and lack of innovation, metamediaries have realized an opportunity to leverage this new technology, data, and analytics to create a shopping experience that is better aligned with what customers want on all levels of the booking process when compared to the brand initiatives historically. As a result, these firms have essentially changed market dynamics and will serve as digital gatekeepers holding the doors to the online reservation journey. Hotels have consequently been pushed deeper in the shopping and booking process.⁵ Brands and independent hotels alike will have to react quickly and creatively if they are to remain competitive in this ever-changing market.

³ Green, Cindy Estis. “Running Shoes, Bears, and Revenue Strategy.” *Hospitality Upgrade* 2013: n. Web.

⁴ Benavides, Jose. “On the Edge with Cindy Estis Green.” Duetto Research Blog Cloud Revenue Management and Forecasting. N.p., 1 Oct. 2013. Web. 20 Feb. 2014.

⁵ Green, Cindy Estis. “Running Shoes, Bears, and Revenue Strategy.” *Hospitality Upgrade* 2013: n. Web.



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