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How online reputation affects hotel trading performance

Horwath HTL Croatia
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FOREWORD

Online reputation has become a major factor in the choosing of a hotel. Now, most travelers will use online sources to review hotels and other tourism operators during their decision making process.

Reviews are thought of as a trustworthy source of information and travelers can form a better picture of the property than they could by just looking at the official marketing communication or asking their direct peers. Needless to say, many factors (e.g. destination image and attractiveness, microlocation of the property, brand, market positioning, service standards, etc.) contribute to hotel performance, and in turn to their online reputation.

In this report we investigate whether a direct correlation between hotel performance and its online reputation really exists, in particular with relation to its ranking on TripAdvisor as the leading global travel review site. The report focuses on independent resort-type hotels located along the eastern coast of the Adriatic, covering the markets of Croatia and Montenegro.

In addition, we offer some tips and recommendations that all hotel operators can follow to try and improve their online reputation and corresponding RevPAR performance.

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GUEST INTERACTION THROUGH DIGITAL CHANNELS

Although the list of topics available online is essentially endless, travel and tourism remains one of the most popular for consumers, and is an area where they are extremely active. In response to this increasing trend of 'digital engagement', companies and brands along the tourism value chain — from airlines, cruise companies to independent and chain hotels, from local to national tourism boards — have set up an official presence on most channels. Digital channels possess a unique ability to engage, measure and create two-way dialogue between companies and their customers, but this can work both ways.

As a vital component of the travel and tourism industry, hotels are on the front line when it comes to customer interaction. There are other, third party channels, outside of their control that also need to be managed. Of these, Trip Advisor is by far the most significant.

When all the digital touch points are transferred into an unique guest experience, whether is it an innovative website interface or a management response to a review, they create hotel online reputation.

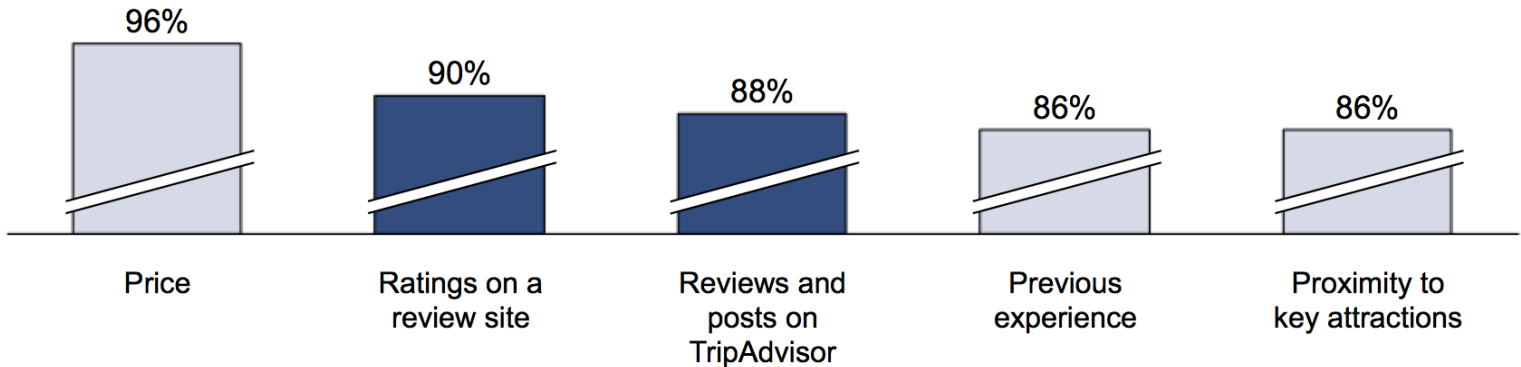
Digital touch points of guest interaction with a hotel



ONLINE REPUTATION – A FORCE TO BE RECKONED WITH

In an increasingly digital world, online reputation has become one of the main factors directly influencing travelers' decisions, thus impacting hotel performance. Serving as an example is the ever-growing importance of online reviews that nowadays represent the main source of information for potential travelers, thus becoming the key word-of-mouth marketing channel for hotels worldwide. A global study conducted by TripAdvisor confirms that hypothesis, where two of the top five factors impacting accommodation decision are indeed a part of the overall online reputation.

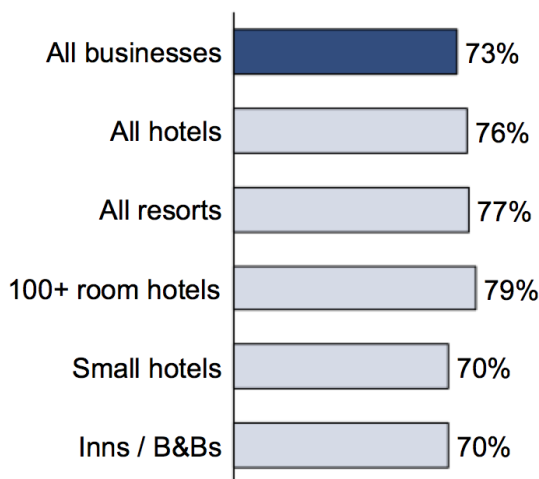
Top 5 factors impacting decision when booking accommodation



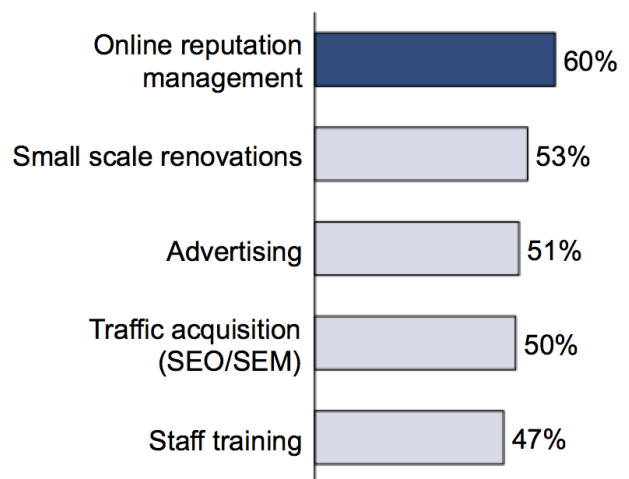
Source: TripBarometer March 2015, Global Travel Economy Report

With competition at an all-time high, hoteliers are fighting for guests. Whether they want to retain guests or attract new ones, (pro)actively managing online reputation is of utmost importance if they want to be successful. It is a message most hoteliers are aware of, since 73% stated that managing online reputation is very important for future business. Consequently, online reputation management is to experience the biggest growth in investment, leaving behind other marketing activities such as advertising and website traffic acquisition.

Online reputation management ranked as 'very important' for future of business



Top 5 estimated growth of investment into hotel operating activities in 2015



Source: TripBarometer March 2015, Global Travel Economy Report

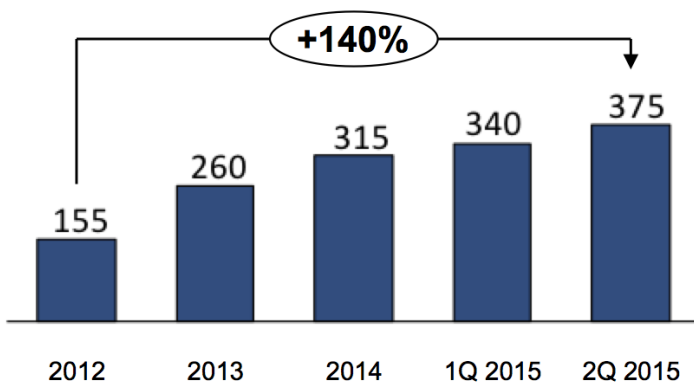
In the world of online reputation, TripAdvisor branded sites make up the largest travel community in the world, reaching out to 375 million unique monthly users in 2015. In that sense, TripAdvisor continues to experience a strong growth, after seeing a tremendous increase in the last two years during which period the traffic to their website more than doubled (+103%).

Consequently, the number of hotels and similar establishments listed on TripAdvisor experienced an increase of 42% in under 3 years, resulting with close to 1 million commercial establishments listed on TripAdvisor in 2015. ¹

Impressive as it is, it only confirms the fact that competition level is at an all time-high. Every guest review and post counts, and only being listed on TripAdvisor or similar website is not enough anymore. Hoteliers need to actively manage their profile on TripAdvisor and other review sites, as well as encourage their guests to leave online reviews, all with the purpose of being ranked higher, since it has direct influence on booking:

- **Hotels ranked #10 on TripAdvisor book 10% more room nights than hotels ranked #20;**
- **Hotels ranked #5 on TripAdvisor book 9% more room nights than hotels ranked #10;**
- **Hotels ranked #2 on TripAdvisor book 7% more room nights than hotels ranked #5;**
- **Hotels ranked #1 on TripAdvisor book 11% more room nights than hotels ranked #2. ²**

Average number of unique monthly users on TripAdvisor, in millions

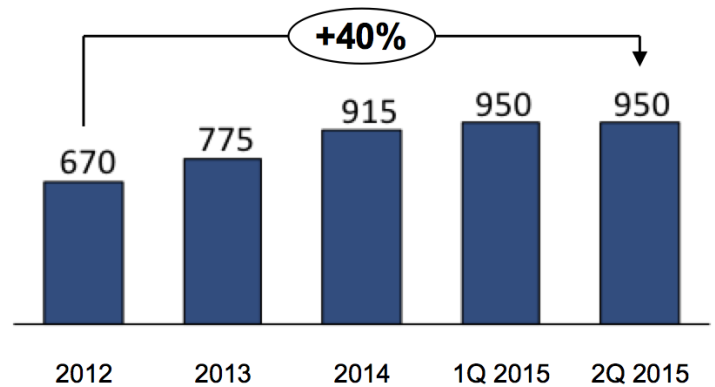


Source: TripAdvisor Q1 & Q2 2015 results, Horwath HTL analysis

1- TripAdvisor 2Q 2015 Results, July 2015.

2 -TripAdvisor study reveals key factors driving hotel engagement, Hotelmarketing.com

Hotels and similar establishments listed on TripAdvisor, in thousands



Source: TripAdvisor Annual Reports, Horwath HTL analysis

THE IMPACT OF ONLINE REPUTATION ON HOTEL PERFORMANCE

Business Case: Hotels in the Eastern Adriatic

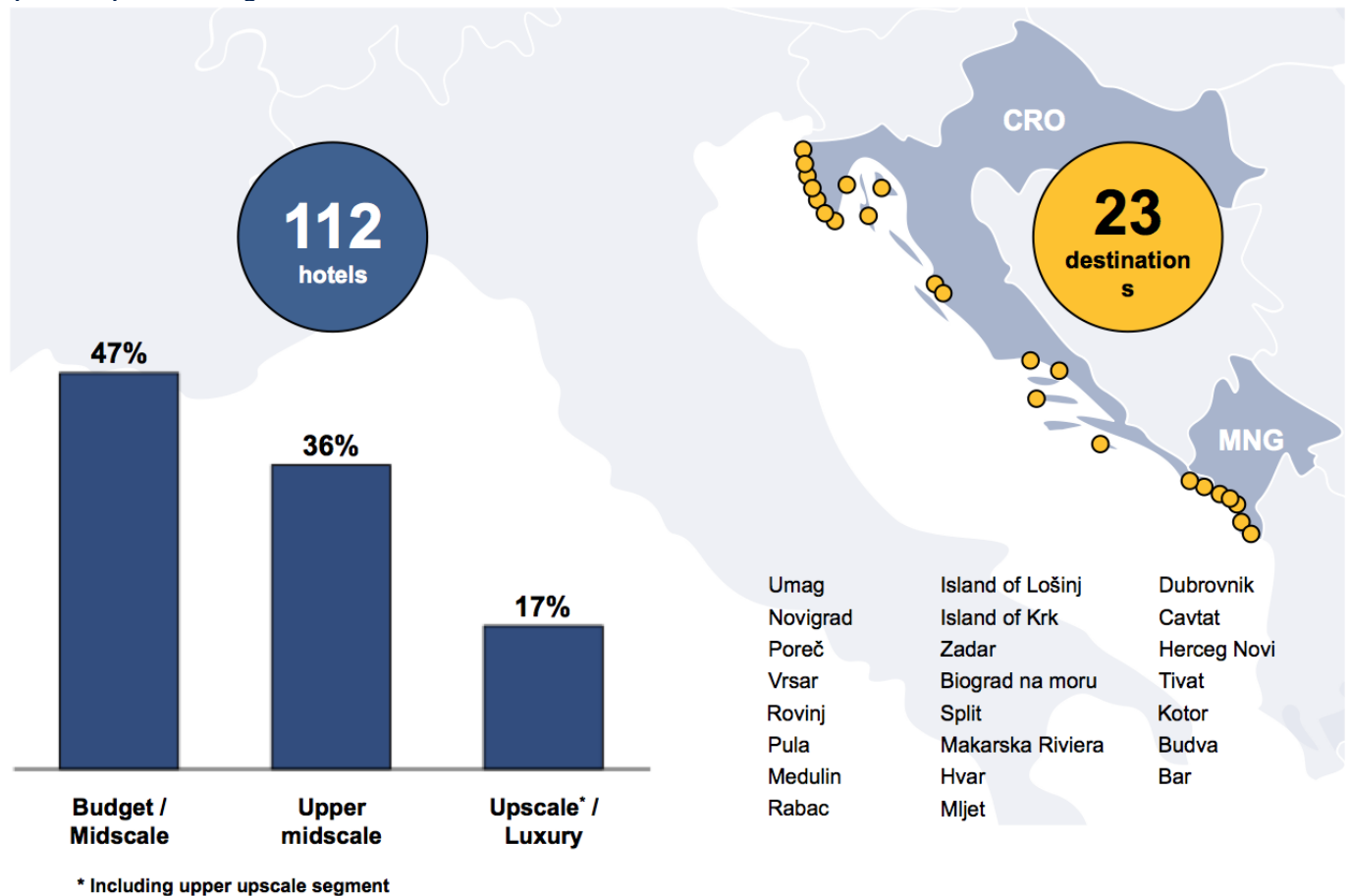
In order to analyse the correlation between hotel performance and its online reputation, during the summer of 2015 Horwath HTL conducted an analysis of hotels along the eastern coast of the Adriatic, covering the markets of Croatia and Montenegro.

Achieved RevPAR was taken into account as a key indicator of hotel performance, sourcing data from Horwath Hotel Industry Survey for Croatia and Montenegro. In terms of online reputation, scores and rankings from TripAdvisor as the leading global travel review site were taken into account.

Over 110 resort-type hotels operating in more than 20 coastal destinations in both Croatia and Montenegro were analysed. 47% of analysed hotels fall within the budget and midscale segment (3*** and 2** hotels according to local categorisation), followed by upper midscale hotels (4****) with 36% of the total sample size. Although upscale and luxury hotels (5*****) represent only 17% of the total sample, they represent the majority of overall hotels number within this segment in the region.

It is notable to mention that only 10% of hotels included in the sample are internationally branded, all of them falling within upper midscale, upscale and luxury segments.

Report sample: Hotel segments and destinations



Budget and midscale segments

When compared with similar hotels in other European regions, budget and midscale hotels on the eastern coast of the Adriatic still have a lower level of physical standards, with not one single property being affiliated to an international brand. As a result, they cater primarily to price-sensitive guests from Eastern European markets such as Hungary, Slovakia or Czech Republic, with traditional travel agencies and tour operators representing primary distribution channels.

Therefore, when talking about budget and midscale hotels, hotel's online reputation does not have a significant influence on it's performance. Still, a 0,1 increase on TripAdvisor score can potentially impact hotel's RevPAR with 0,9 EUR increase.

Upper midscale segment

With a 17% increase in total bed capacity during the last 2 years in Croatia, and 40% in Montenegro, the upper midscale segment experienced the biggest growth among all segments. Due to the high level of competition with low level of diversification among the hotels within the segment, 65% of hotels within the upper midscale hotels sample have TripAdvisor score within the range 4.0 – 4.4. As a result, the potential impact of TripAdvisor score on hotel performance is quite low, with 0,1 point increase resulting with 1,6 EUR RevPAR growth.

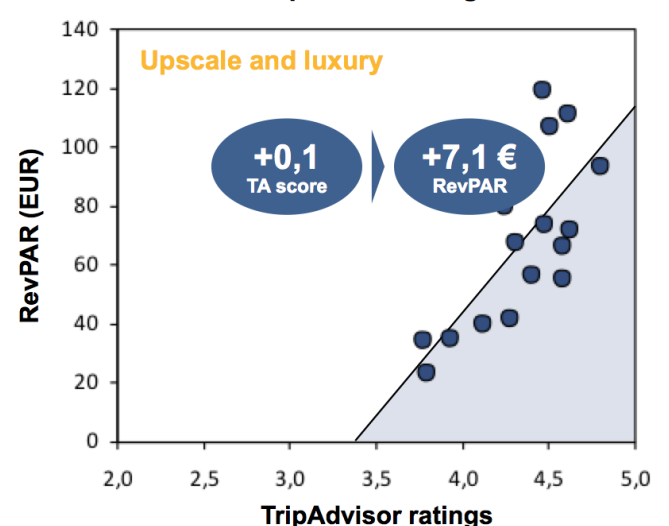
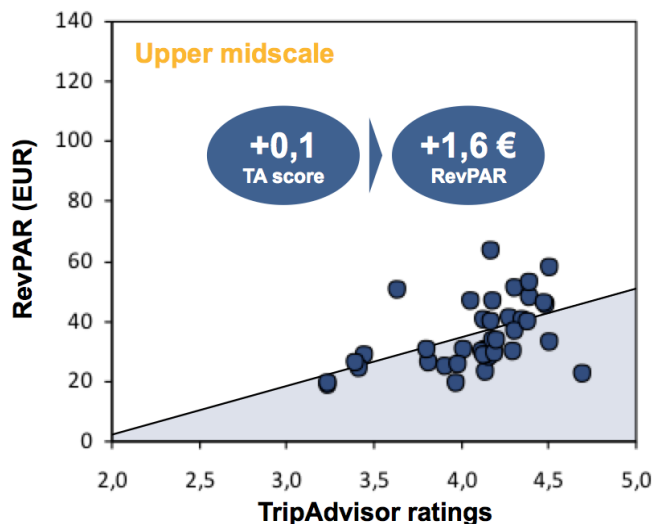
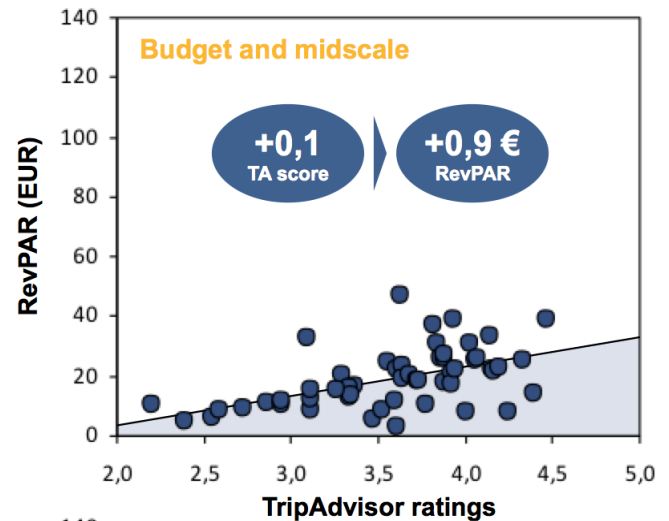
Upscale and luxury segments

On top of being the leading global review site, TripAdvisor is also the leading review site for luxury hotels - 53% of all reviews on luxury hotels globally are produced on TripAdvisor. ³

As different studies have shown, affluent travelers are becoming value-conscious consumers. Besides searching for an exceptional experience, they are weighing up what something costs versus what it is really worth to them, aiming to get the best value for their money.

This coincides with our findings, showing that hotels within this segment are most online reputation sensitive. Analysis has shown that a 0,1 point increase on TripAdvisor score can potentially impact hotel's RevPAR with 7,1 EUR increase.

Correlation between TripAdvisor scores and hotel performance (RevPAR)



Source: Horwath Hotel Industry Survey Croatia & Montenegro; TripAdvisor

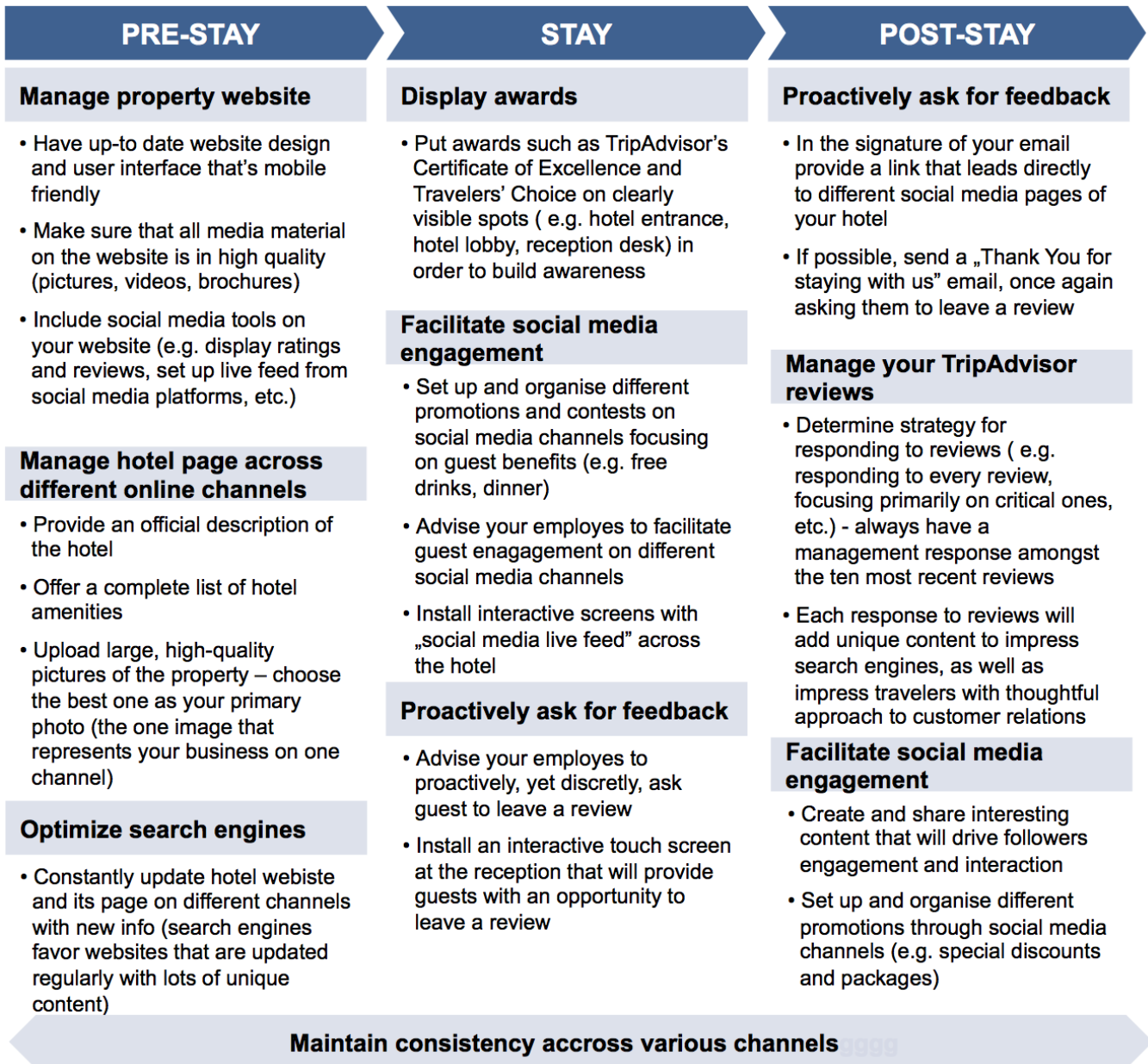
3 - The Luxury Traveller and Social Media 2013: The Americas, Brand Karma

CONCLUSION

Factors such as destination attractiveness and image, microlocation of the property and hotel brand can impact hotel performance much more than its online reputation. However, as shown in this report, there is indeed a correlation between those two variables, the strongest one seen among upscale and luxury hotels. In the opposite direction, surely the pricing strategy and value for money which hotel offers to the guests impact the online ranking of the hotel, which should be taken into account when evaluating the above correlation.

Unlike many factors that potentially impact hotel performance, online reputation is something hoteliers can manage - it is not a choice anymore, it is requirement. For hoteliers who are just starting to get a hold of it, here are several recommendations that will give your online reputation management a kick start.

Tips and tricks on how to quickly improve hotel online reputation



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Sanja Cižmar is a Senior Partner with Horwath HTL Croatia. Sanja earned her PhD in strategic management for hospitality industry at University of Zagreb, Faculty of Economics and Business.

She is a lecturer of hotel management at University of Zagreb, Faculty of Economics and Business, and author of several text books on tourism and hospitality management, as well as numerous articles and columns in professional and scientific magazines.

Sanja has built her hospitality industry management and consulting experience in South East Europe, working on consulting projects with the leading hospitality companies for more than 20 years. She has been involved in over 400 projects including a wide range of project development assignments, coaching, asset management and hotel management contracting projects.



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Mirko Jergovic graduated magna cum laude from the University of Rijeka, Faculty of Tourism and Hospitality Management, where he earned a Bachelor's Degree in business economics in tourism and hospitality. He obtained his Master's Degree in international tourism and hospitality management from EADA Business School in Barcelona, Spain.

Mirko started his career at Horwath HTL office in Barcelona as an Analyst. During that period he provided advisory services to global hotel companies and investment funds, covering the markets of Spain, Portugal and Andorra. After several successful projects, he moved to Horwath HTL office in Zagreb to become a Junior Consultant, advising Clients in both private and public sector in the SEE region.

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