

## *Hotel Distribution Costs*

Examination of the costs associated with direct and indirect distribution channels for Hotels, together with the impact of 'channel shift'

**Final Report**

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## Hotel Distribution:

# *Executive Summary*



# Shifting customers to direct has no impact on net contribution to hotels

The claim that direct distribution is 'considerably cheaper' than indirect distribution for a typical hotel is extensively reported. (pg8)

Our analysis shows the average *net contribution*\* of all the **direct** distribution channels is €4.59 per booking greater than the average of all the **indirect** channels. (The overall *net contribution* from all channels is €80.94) (pg 9)

However, if we compare solely the *net contribution* of the OTA with Brand.com, then the *net contribution* is €78.43 with OTA channel contributing €0.12 more per booking than the Brand.com. (pg 10)

Were a hotel to shift their entire inventory (away from the OTA channels to Brand.com), there would be a statistically insignificant change in the overall *net contribution*\*\*. This shift assumes a *net cost*\*\*\* rebalancing. This also assumes all other market dynamic factors remain the same. (pg 11)

However, a hotel is likely to face a significant drop in occupancy, which would require a material increase in spend in the areas of: customer acquisition, online marketing, technology development and customer services.

When selling indirectly, these costs are usually borne by the intermediary from commission proceeds whereas if the hotel would have to directly expend resources in these areas if there was a shift from indirect to direct channels.

Furthermore, the hotel is likely to lose the positive impact of the billboard effect (between €7 - €10 per booking). (pg 12)

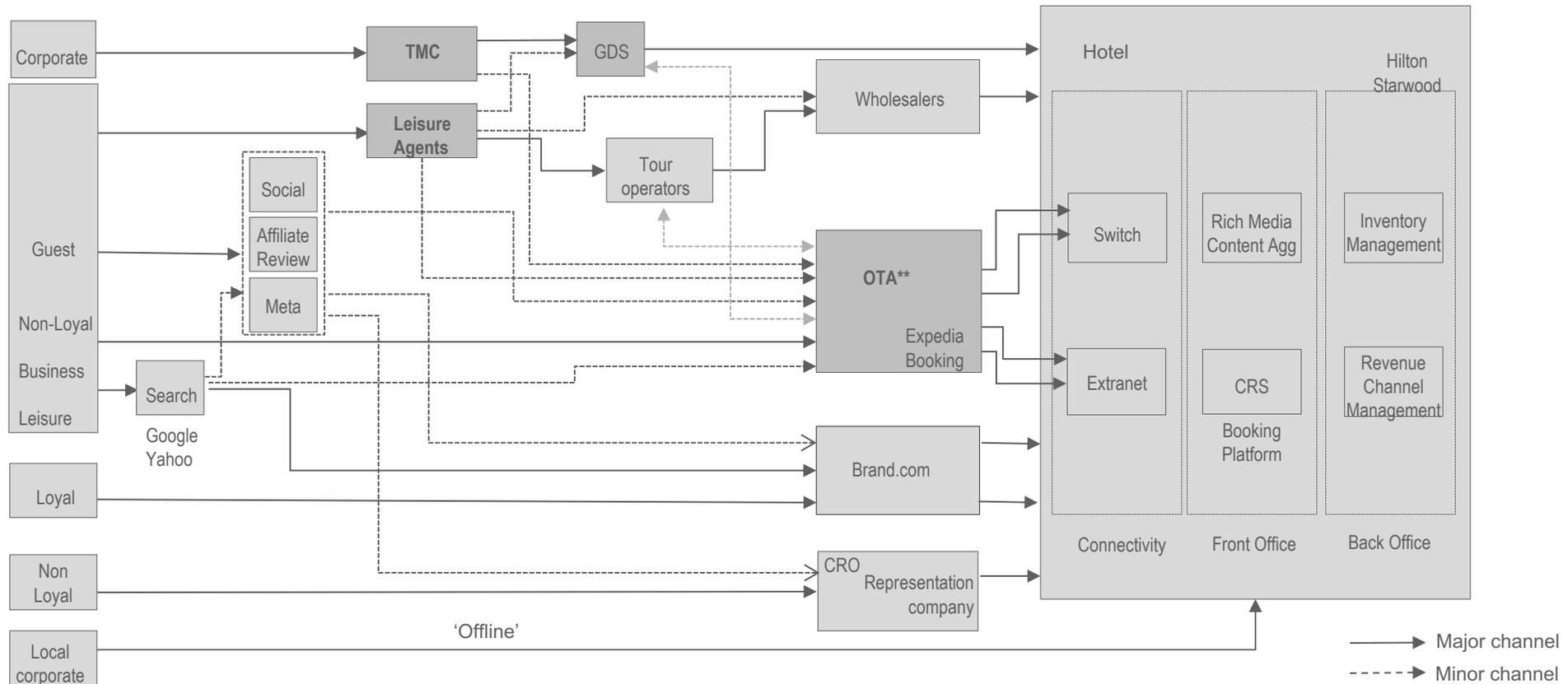
\* Net Contribution is the preferred Key Performance Indicator as this takes into account both channel costs and their respective channel revenues. Av. ADR of €112 normalised across all channels to allow examination of costs in isolation.

\*\* a reduction in average net contribution from €80.94 to €80.92 (or 0.03%)

\*\*\* e.g. removal of commission, addition of SEO costs, etc

# The hotel industry has a wide range of channels\* to connect with and generate bookings from, end consumers

Our model assumes that an average hotel receives the majority of its bookings from 11 primary channels\*. Each channel will have different combinations of 'connections' to deliver each hotels' final product to the guest. Guests have a wide range of choice and ultimately decide which channel they will use



Hotel distribution is fragmented, with multiple connectivity options and varied competing commercial models. Total costs per booking range from between 10% and 30% of room revenue.

\* Channels include Indirect: OTA (4 sub channels), TMC, Wholesaler, Direct: Brand.com (2 sub channels), CRO, local direct and Offline: MICE- this is non exhaustive

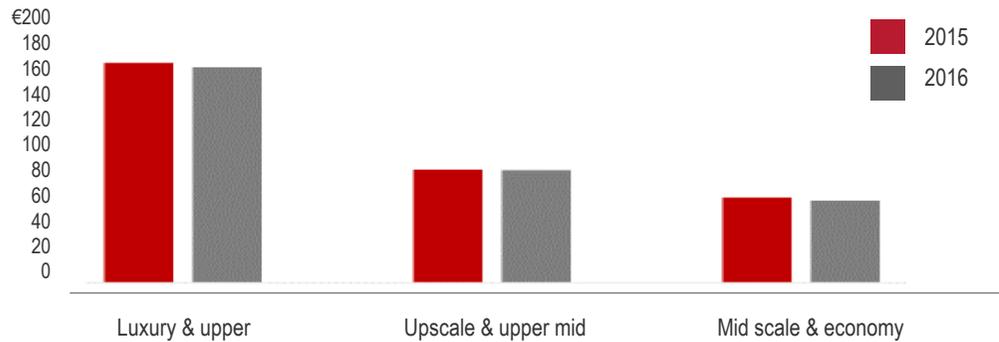
\*\* OTAs have differing final connectivity options to the Hotel via the switch, extranet or CRS- each with different cost implications

This graphic illustrates the main distribution channels and linkages and the authors recognize that other connections exist and vary greatly by hotel/chain.

# Channels may serve a different mix of end consumers and as a result can deliver different average revenues

Average Daily Rates (ADRs) across Europe vary considerably by city and type of hotel

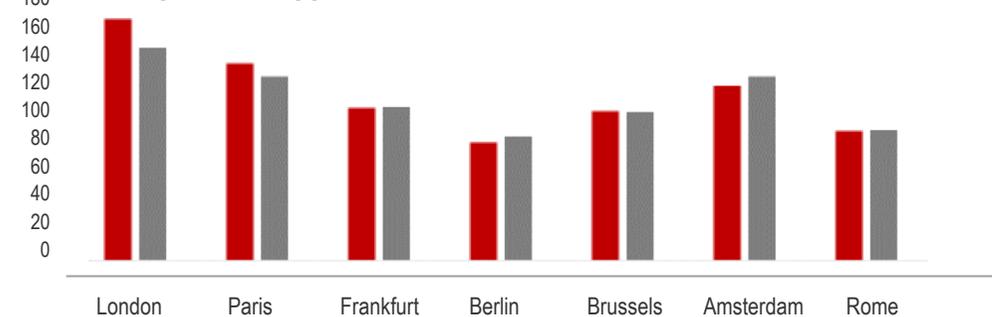
ADR Europe per type of Hotel, 2015-2016, €



Across Europe, hotel room revenues vary greatly by geographical location, by customer mix, market supply/demand and type of hotel:

- Luxury and upper scale almost 100% greater than midscale and economy
- European capital city ADR's vary by 100% comparing Rome with London or Amsterdam
- 'Baseline' revenues (by channel) reflects the distribution model's average revenues

Upscale & Upper Mid Classes ADR, 2015-2016, €

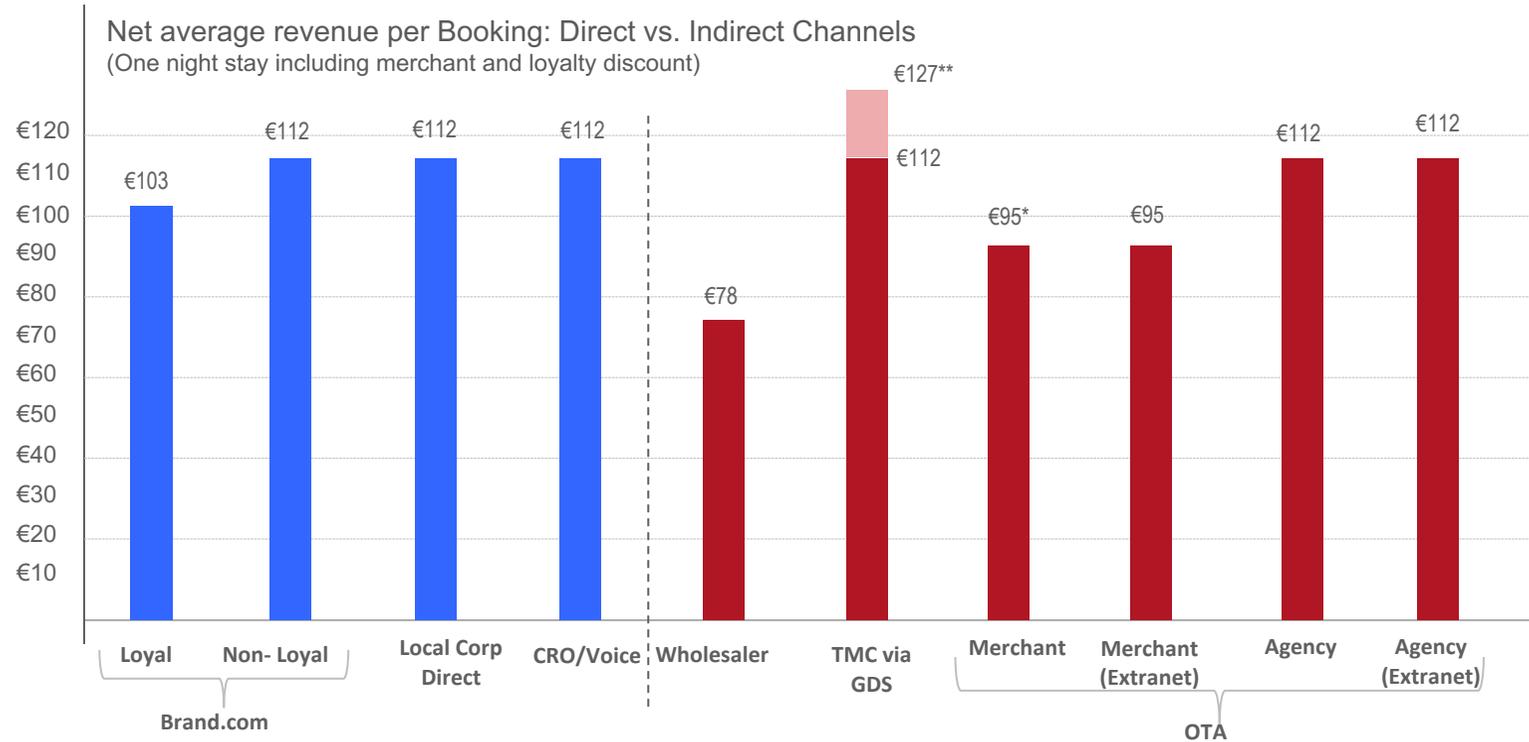


The average ADR for European hotels is €112 which is used as the baseline for modelling in this report

# Each channel generates a different average level of revenue for the hotel

## REVENUE

The hotel ADR is the normalised across channels\*. The net ADR varies due to the inclusion of commissions payable to OTA's and loyalty discounts



Source: Infrata based on industry sources. Data is for hotel chains and hotels selling through major representative groups. Brand.com is modelled as a direct channel. The nature of hotel franchising and ownership, means that Brand.com in some cases can be viewed as indirect.

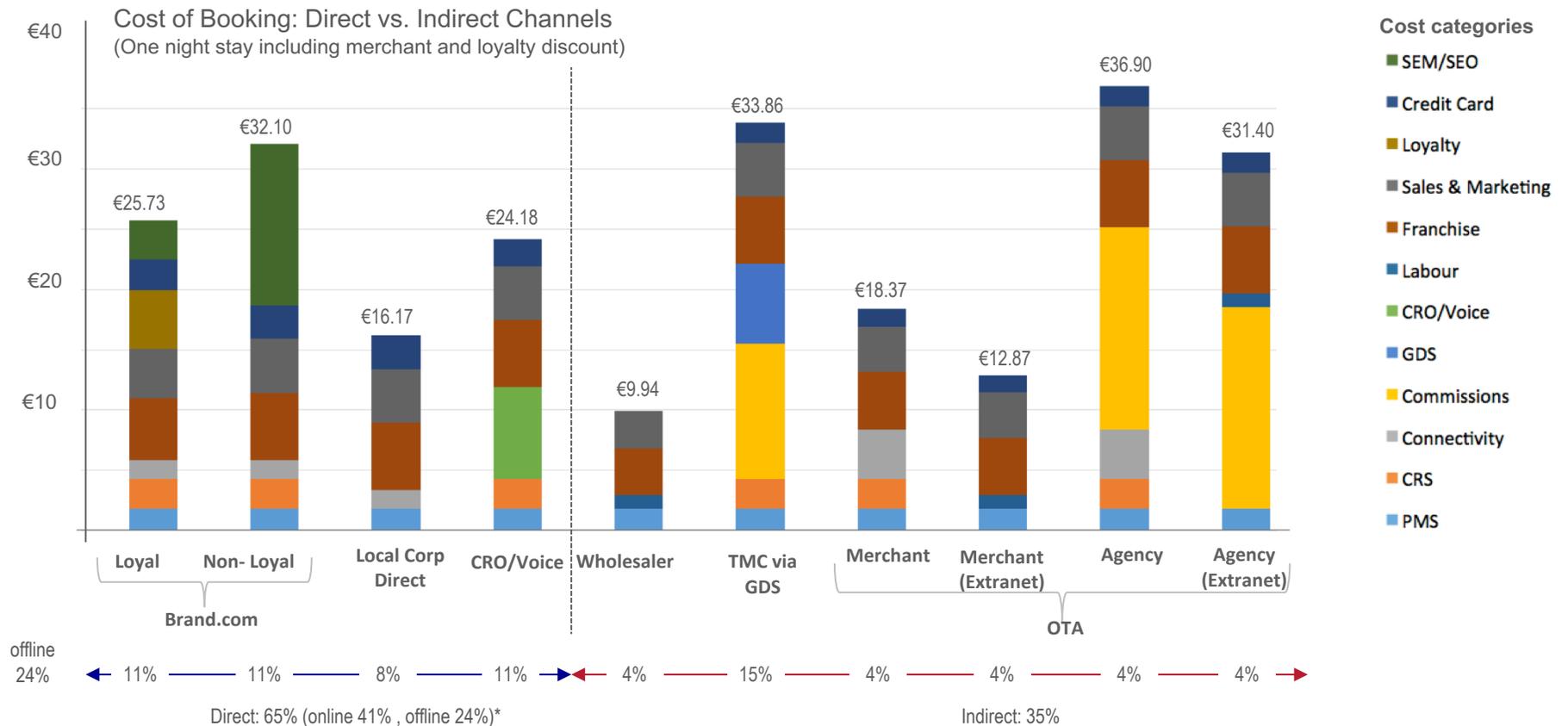
\*To allow for like-by-like comparison of impact of channel shift a common ADR baseline is required. €112 is modelled as the average industry

\*\* The ADR for TMC via the GDS is €12 - €15 higher than the average due to a higher spending business-oriented clients. Source: TravelClick

# As a result of the different connectivity options, each channel (direct or indirect) has a different level of total (average) cost

## COSTS

Different cost level within different categories contribute to the cost per channel. These costs are either fixed or variable per booking. Agency channel costs include commissions which are treated as ADR discounts where the booking intermediaries are collecting payments



\* Hotels receive guests from both online and offline bookings. Percentages shown here are for online bookings (offline not shown).

\*\* Credit card fees are either paid directly by the hotels or indirectly (for Merchant transactions), which is modelled by through lower revenues via the merchant channel

\*\*\* Phocuswright OTA market share is approx. 26%, but does not take into account of 24% offline. Taking this into account OTA market share=19% (vs Travelclick 16%)

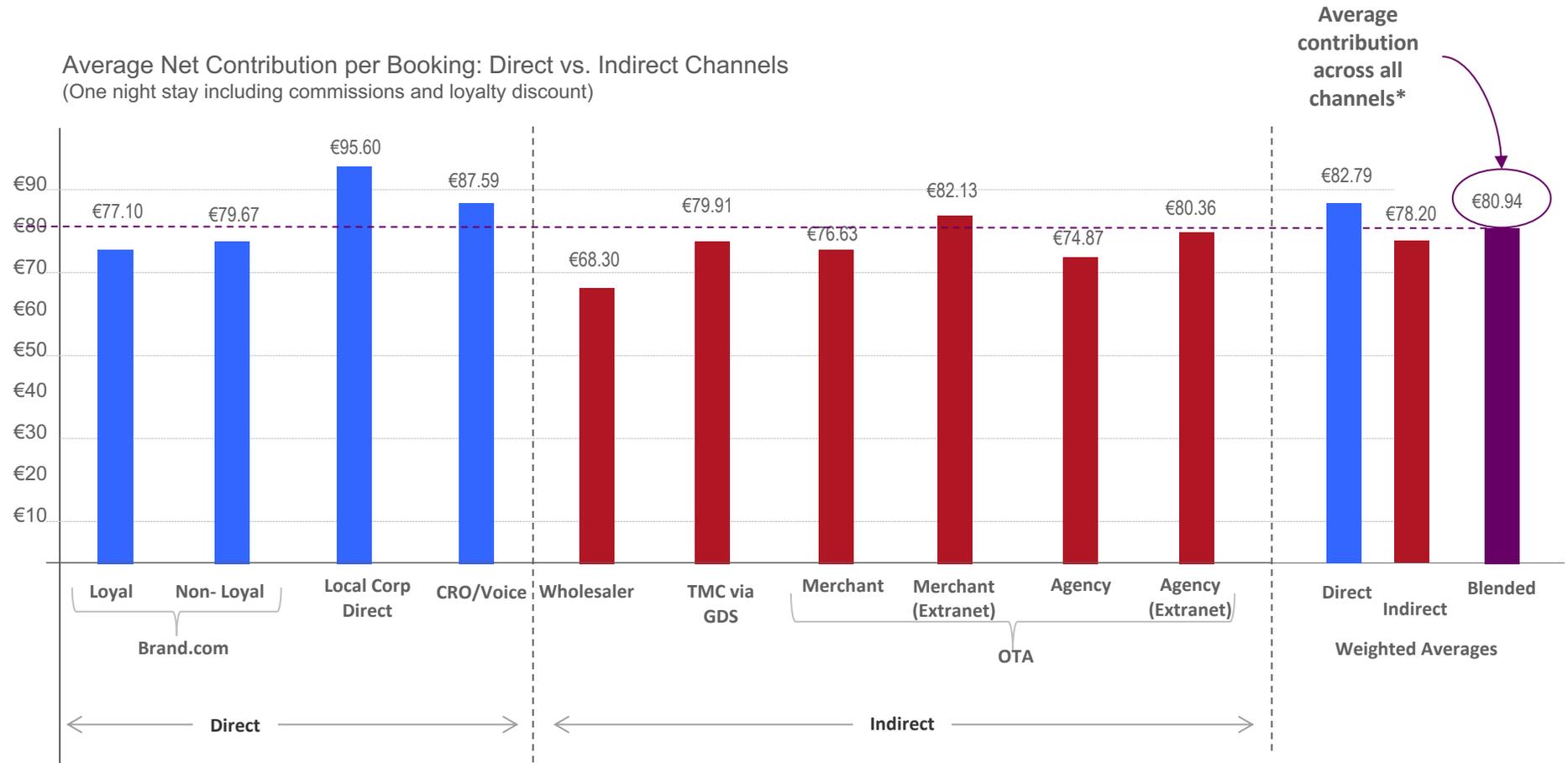
Source: TravelClick 2016; Phocuswright 2016. Data is for hotel chains and hotels selling through major representative groups. Please see main report cost tables

# As a consequence, we have examined the net contribution per channel as the basis for comparison

## CONTRIBUTION - Base scenario

Net contribution takes into account channel costs and net ADR. The net average contribution of the OTA channel is marginally higher than that of Brand.com (loyalty and no loyalty guest)

Average Net Contribution per Booking: Direct vs. Indirect Channels  
(One night stay including commissions and loyalty discount)

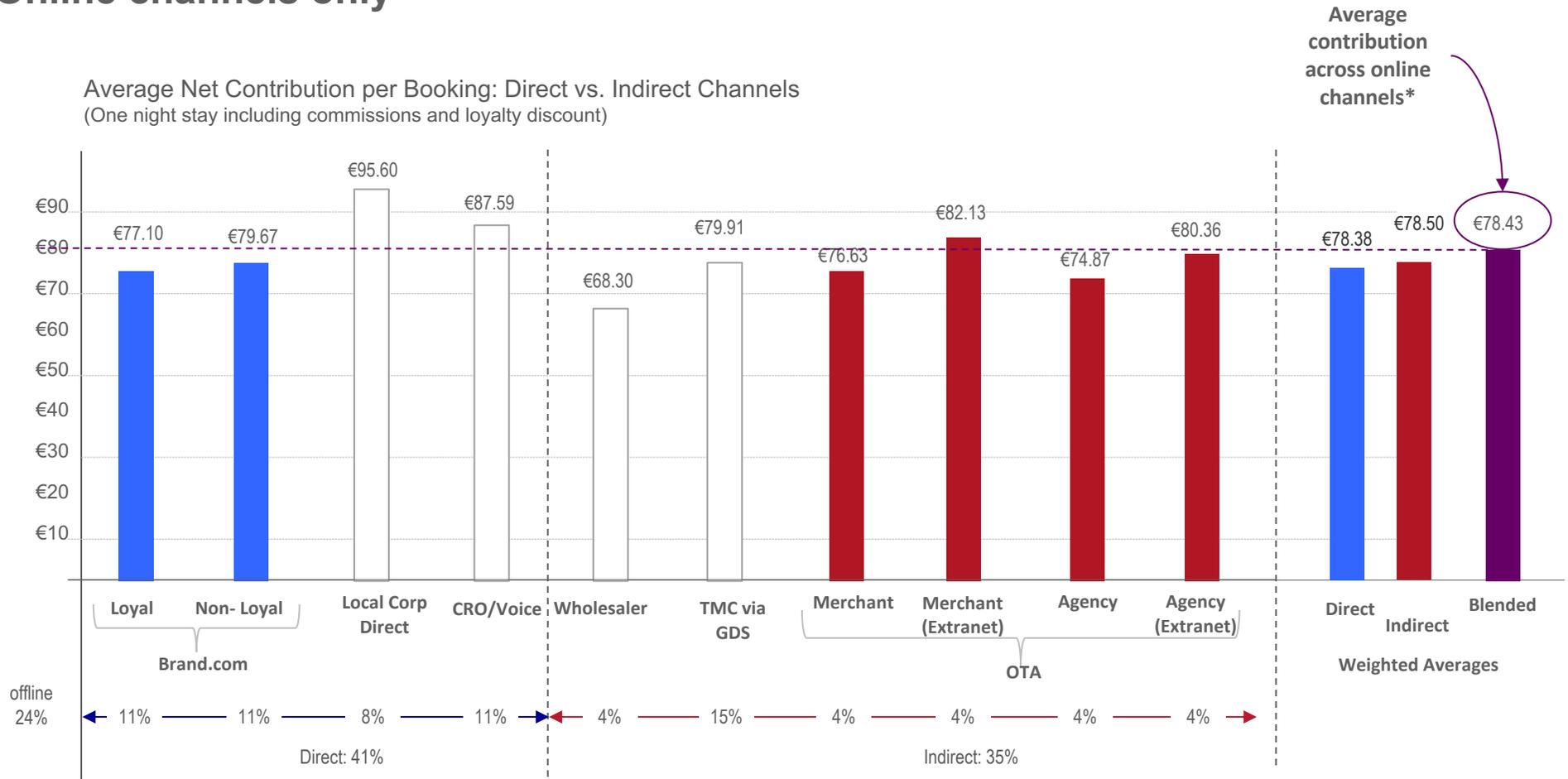


\* Direct bookings deliver an average of €4.59 per booking more than Indirect (€82.79- €78.20)

Source: Infrata based on industry sources. Data is for hotel chains and hotels selling through major representative groups.

# Looking solely at online channels – OTA delivers an additional net contribution of €0.12 per booking vs Brand.com

## CONTRIBUTION - Online channels only

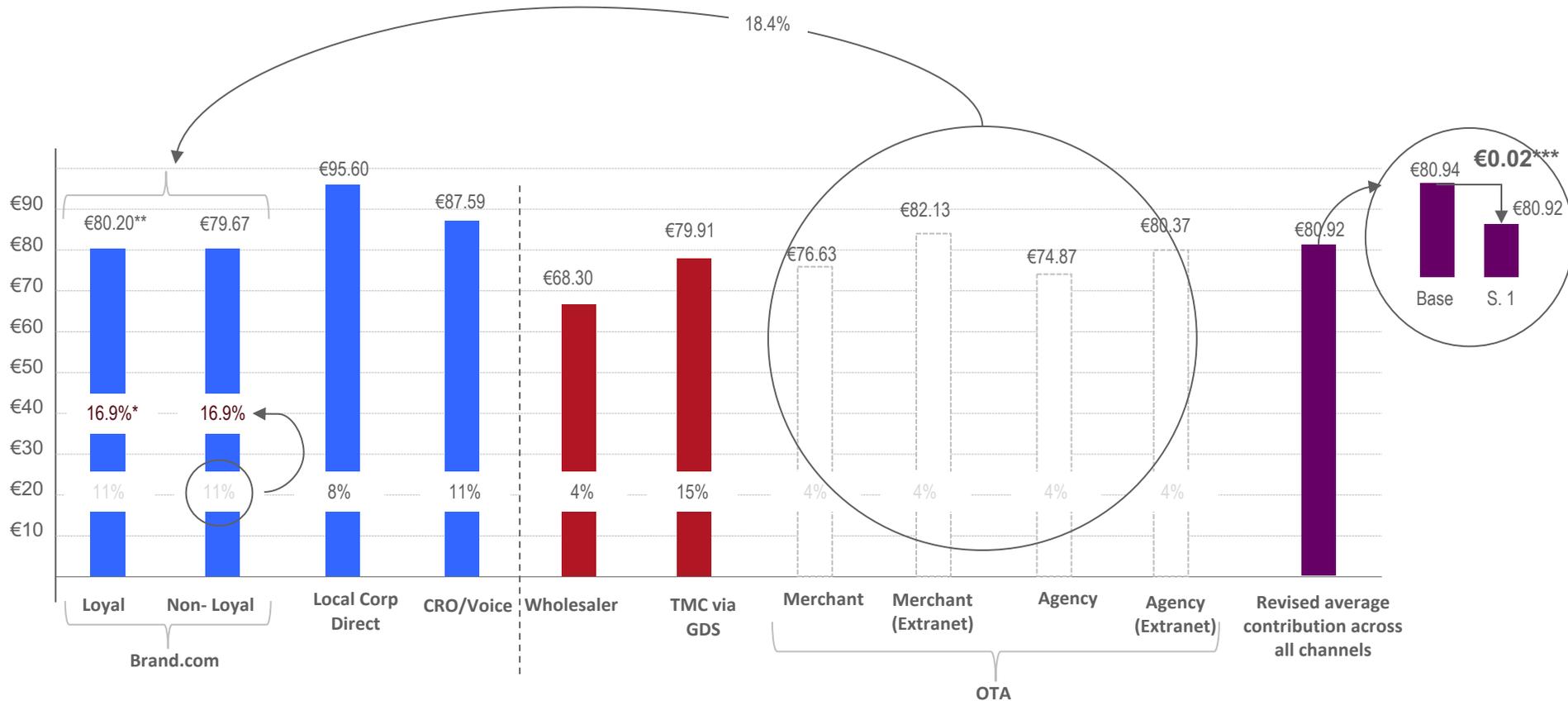


\* OTA channels deliver an average of €0.12 per booking more than Brand.com (€78.50 - €78.38)

Source: Infrata based on industry sources. Data is for hotel chains and hotels selling through major representative groups.

# Channel Shift Scenario: Shifting all OTA bookings to Brand.com - assuming all other factors remain the same

In this scenario where all other factors remain the same – specifically hotels do not need to do anything to secure those OTA-originating guests - the net impact of shifting all bookings from **OTA** to **Brand.com** is a reduction in *net contribution* of **€0.02** (0.03%)



\* Shift from the OTA channels to Brand.com equally split between loyalty and non loyal sub-channels (50-50)

\*\* The loyal Brand.com channel experiences a mathematical net contribution increase of €3.1 (€80.2-€77.1) due to reallocation of net costs.

\*\*\* Statistically insignificant difference (€0.02/€80.92 = 0.0247%)

# Billboard Effect: Hotel presence on OTA displays significantly increases direct hotel booking numbers

Hotels benefit significantly from being displayed on OTA websites. Up to 35% of hotel bookings can be attributed to guests finding out about a particular hotel, then booking directly with that hotel- known as the billboard effect. If the billboard effect did not exist, Brand.com would need to to compensate to regain the 'lost' guests by increasing its SEO spending by between €7 and €10 per booking.

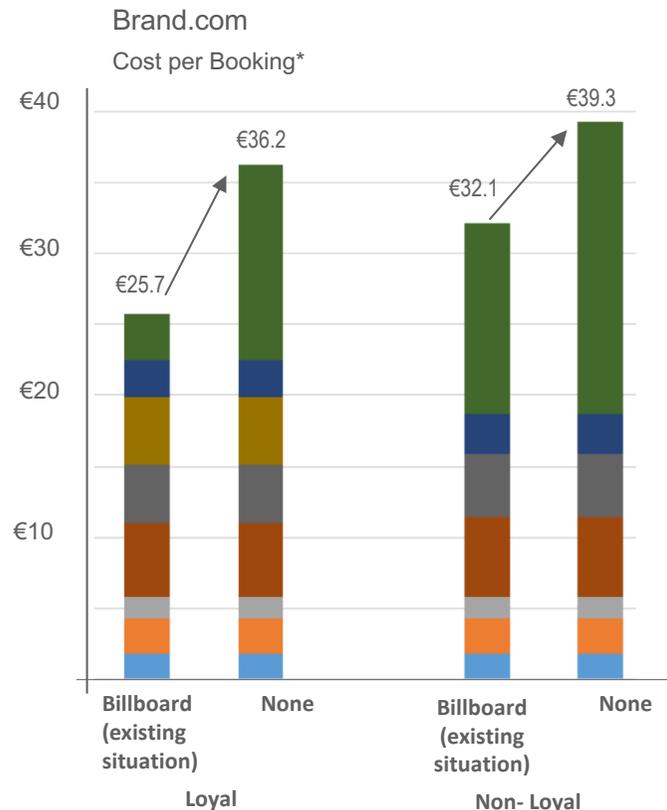
The columns labelled 'Billboard' reflects the existing situation in which the hotels are benefitting from the advertising spend of the OTA leading to more bookings through native search. The cost to 'Brand.com' would increase if the OTA did not advertise as found by the Cornell University research.

### Cornell university research:

Groups of hotels which were listed and then removed from display in alternate weeks showed that, when listed, the hotels received an increase of between 5% and 35% in the level of bookings on the own hotel's website

It is estimated that 75% consumers who made reservations with a hotel brand had previously visited an OTA in advance of booking directly.

Consumers visit an OTA on average 7.2 times prior to booking directly.



### Assumptions:

1. Brand.com share of total hotel bookings is 15.3% (50-50 loyal and non-loyal)
2. Up to 35% of these bookings is due to the billboard effect.
3. Therefore total bookings due to the billboard effect is 5.35%
4. The Hotel's current non-loyal SEM cost component per booking is €13.4.
5. To recover the lost volume (5.35%) hotels needs to increase average spend to €39.3 per booking in non-loyal and €36.2 in loyal.
6. We assume that loyal SEM has to be increased to non-loyal rates to attract new customers.
7. Non-loyal are assumed to cost more in terms of SEO because they are not already 'captured' by the hotel or the OTA.

### Cost categories

- SEM/SEO
- Credit Card
- Loyalty
- Sales & Marketing
- Franchise
- Labour
- CRO/Voice
- GDS
- Commissions
- Connectivity
- CRS
- PMS

\*One night stay including merchant and loyalty discount



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# Hotel Distribution: *Market Dynamics*



# This study took a rigorous approach to modelling distribution and associated costs and industry dynamics



## To build a robust model we:

- Reviewed a wide range current literature within the industry
- Used recognised industry bodies and research to support numerical analysis
- Analysed the impact of trends and forces shaping the industry
- Where appropriate used an industry average in the analysis, and these may vary widely when looked individually, such as the costs associated with hotel franchise and chain participation agreements

## The model allowed us to test:

- How costs vary by channel and technology/system
- How channel type impacts cost and revenue
- How market dynamics and shifting channel structures impact profitability

## This study shows that:

- A number of costs were channel independent (e.g. internal hotel distribution systems)
- Other major cost groups varied considerable by channel (e.g. commissions, SEM, GDS)

## This study did not review the full spectrum of dynamics impacting hotel channel shift. In particular:

Consumer buying behaviour overall: one itinerary for travel, shop air first, shop sites offering full travel components, etc..

Impact of hotels' use of channels to increase hotel occupancy rates as some channels are more effective as marketing tools than others

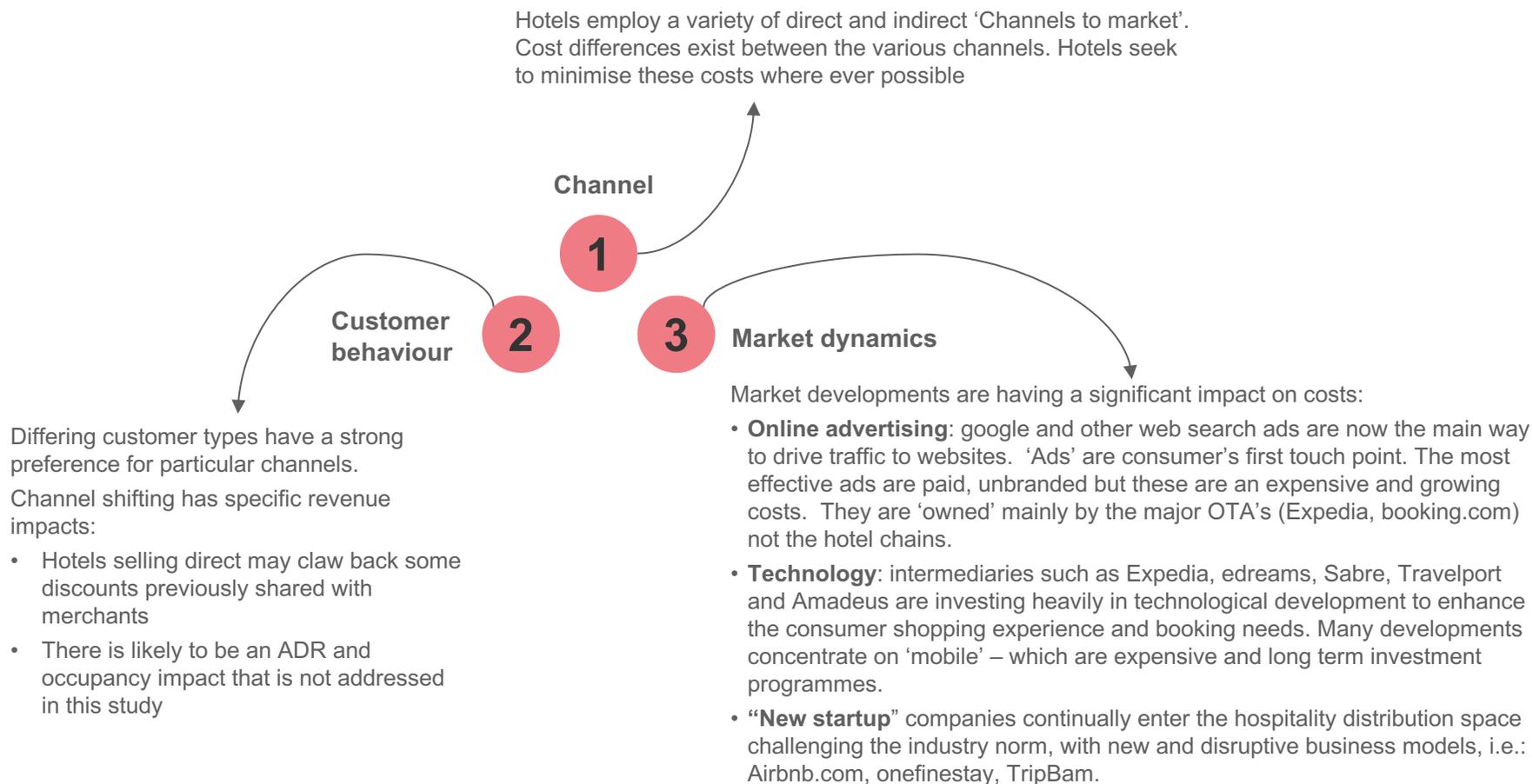
The specific practicalities enabling a business or leisure traveller to shift booking channels from indirect to direct – impacting booking costs, booking revenue, mandatory support systems and negatively impact hotel occupancy

Long term trends in customer segmentation i.e. business vs. leisure and groups vs. independents

The impact distribution costs and the ability to satisfy consumer needs, if customers (e.g. those currently being served through TMCs) are 'forced' to move to Brand.com, how is travel policy compliance handled?

# In particular, three dynamics (Channel, Customers, Market) were considered in the distribution cost 'equation'

To fully understand the impact, we considered the interactions between three key dynamics:



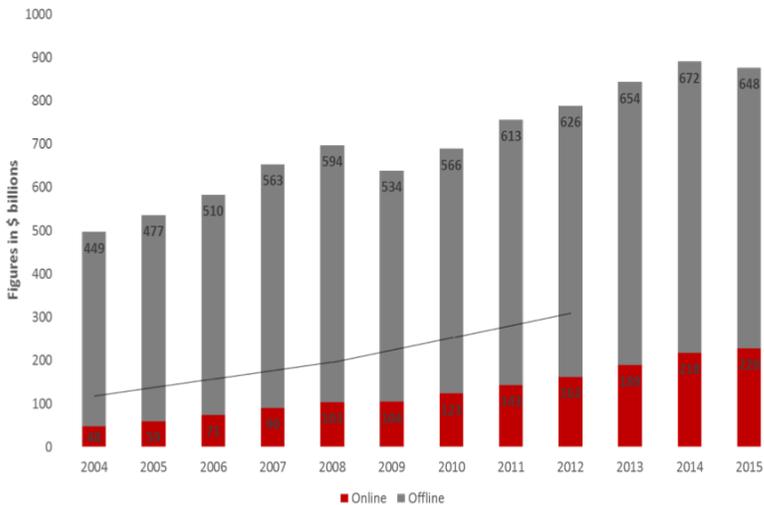
# Hotel distribution costs are impacted by the market dynamics of this channels shift, product mix and technology

Key market dynamics impact Hotel distribution costs. These dynamics either simplify the 'chain' thus reducing certain cost (e.g. online booking) whilst other dynamics increase complexity (e.g. increased advertising costs and distribution technology).

Category	Dynamic
1 Online	Hotels aim to increase bookings via their own websites ("own-brand.com") including 'direct connect' (led by major US chains)
2 Advertising	Hotels needs to 'invest' heavily in customer acquisition via Google ads (others also exist) to ensure traffic to own-brand.com site
3 Technology (1)	Hotels aim to optimize their bookings on their most profitable channel mix - employing sophisticated revenue and channel management tools.
Technology (2)	Hotels are facing new distribution players (e.g. TripBam, Airbnb, RocketMiles, Travelperk) that employ new technology (e.g. mobiles) and business models (e.g. Google's Trips).
4 Consolidation	Hotel chains are increasing market power through consolidation (e.g. Accor acquisition of FRHI, Marriott, Starwood. HNA acquisition of Carlson and Hilton (25% stake)
5 Branding	Hotel branding increasingly important in customer acquisition (largest chains offer 113 brands, various product types & price points. 31 new brands evolved over last ten years).
6 Loyalty	Hotel loyalty programmes are increasingly impacting marketing/product mix.
7 'Transience'	Hotels are facing increasing 'channel' fragmentation among individual customers (a.k.a. 'transient') versus 'group' sales as individuals seek to 'game' the systems

# Bookings via the online channel are growing in both business and leisure segments

Penetration of global online accommodation bookings (% , 2004-2015)



Source: Euromonitor Passport

- Global online room bookings have increased from 22% in 2010 to 35% in 2015

## Key trends

Online booking is growing globally at 13% per annum and online now accounts for 35% of the global market.

- Initially focussed on the price-driven leisure segment.
- Consumers search many sites before making a booking.
- Business segment is being encouraged to book direct and annual negotiation process with hotels for corporate rates is being undermined.
- Corporations are incentivizing their travellers to book lower priced travel options by sharing the savings with the traveller. (Travelperks, TripBam, HRS examples)

Overall costs of distribution have risen resulting in the trend of hotels being much more selective and competitive when placing inventory on channels.

***Growing share of sales through OTA and Brand.com and reducing OTA margins are reflected in the cost comparison model***

# The cost of attracting 'non-loyal' customers is extremely high in the online environment

When examining how feasible it is to move customers from one channel to another, a detailed understanding of the dynamics is required. In particular, the associated increase spend to acquire non-branded internet hotel search has a disproportionate impact on costs.

OTA's outspend hotel chains on non-branded hotel search by 'orders of magnitude' and due to their scale achieve a more efficient use of marketing investments. The more efficient and higher spending means higher visibility in the websearch which translates into bookings

Consumers often use OTAs for initial research then book directly via Brand.com. 65% of Brand.com bookings come from consumers who first researched options via an OTA. This 'unpaid marketing' for the hotels is described as the 'billboard effect' as the hotels benefit from OTA marketing spend.

Data from Skift shows the significant investment in direct online advertising of the OTA's with Priceline and Expedia spending a combined \$5.8 bn in 2016, some 37% of their revenues. This massive spending benefits all suppliers as well as these OTA

## Priceline and Expedia Ad Spend 2016 \$000

2016 Year-End (U.S.\$ Millions)	Total Ad Spend	% of Gross Profit	Digital Ad Spend Estimate	% of Gross Profit	Revenue
Priceline	\$3,775	36.6%	\$3,479	33.7%	\$10,743
Expedia	\$2,700	37.6%	\$2,295	32%	\$8,774
<b>Total OTA</b>	<b>\$6,475</b>	<b>37%</b>	<b>\$5,774</b>	<b>33%</b>	<b>\$19,517</b>

# Consolidation, Branding, Loyalty and Transience of Hotel Market Have Mixed Impact on Direct Distribution

Consolidation, branding, loyalty and transience of hotel market and customer behaviour have mixed impact on direct distribution

	Market Dynamic	Likely Impact on Direct / Indirect
Consolidation	is accelerating in the hotel chain space for example with Accor purchasing FRHI, Marriott Starwood, HNA acquiring Carlson and 25% stake in Hilton	Increasing Direct as fewer hotel groups with greater market power. Challenge for hotels to be travel sites incorporating: air, car rental and rail for trip bundling.
Branding	is an increasingly important marketing tool and the world's largest hotel chains offer 113 brands combined, various product types and price points, 31 of these did not exist ten years ago.	Impact varied: some are mass market, some are targeted at specific niche.
Loyalty	Loyalty programme members outnumber non-members by 3 to 1 in hotel transient website sales (called Brand.com in this study). Non-members outnumber members by 4 to 1 in on-line travel agent (OLTA) transient sales. Hotels are pro-actively offering loyalty members attractive rates, add-ons, and packages to book direct on 'own-brand.com	Loyalty customers more likely to use Brand.com.
Transience	Transience increase in share of 'transient' i.e. More individual customers may lead to need for more distribution.	Increasing indirect; non-transients likely to use numerous distribution channels. Want aggregated content choice including: air, car rental and rail to bundle trip.

# Customer Groups Propensity for Channel Switching: Business – *Low Switchers*, Leisure (independent) *High*, Leisure (group) *Low*



Customer group	Description	Channels used	Factors affecting model
Corporate	Require tracking systems, consistency and security of data, lost productivity, tax information, and duty of care	Important segmentation: preferred partners/volume deals, 'ad hoc' travel	Strong resistance to channel shifting due to reporting requirements, some potential for direct connect between largest B2B
Leisure (independent)	Lack of conformity and predictability, extremely price sensitive, high levels of websearch and responsiveness to ads	OTA, meta, travel agent, hotel websites	Potential for channel shift but substantial marketing cost required (witness Travelodge UK campaigns).
Leisure (Group)	Predictable and 'controllable' group, served by tour operators, price sensitive	Mostly sold and negotiated direct with hotel	Limited need for channel shift to save distribution cost.

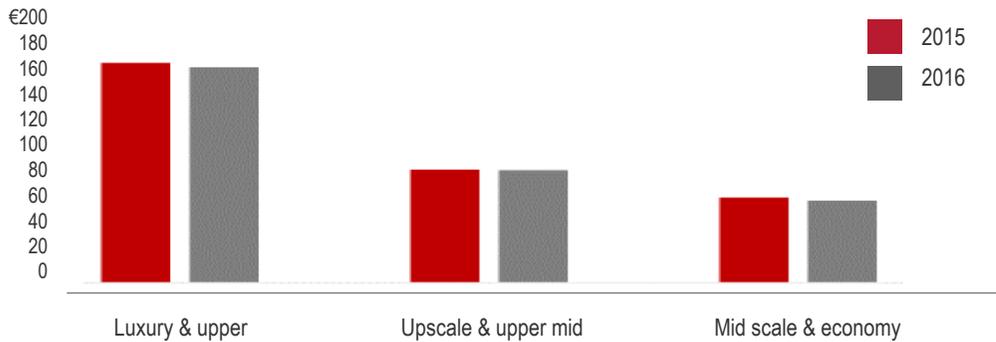
## Channel Analysis Overview

Overall distribution costs impact business model across a number of factors:

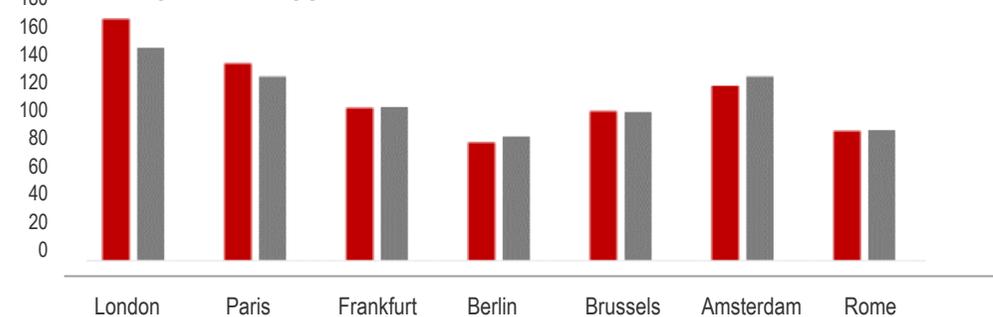
- Cost per channel varies by customer group
- Revenue per customer varies by type
- Different groups have varying potential for channel shift

# Revenues: ADR's in Europe vary considerably by city and type of hotel: average used for cost model

ADR Europe per type of Hotel, 2015-2016, €



Upscale & Upper Mid Classes ADR, 2015-2016, €



## Key Trends

Hotel room revenues vary greatly by geographical location, by customer mix, market supply/demand and type of hotel. The chart shows the channel variance in ADR.

- European hotel ADR shows significant variance between hotel types
- Luxury and Upper scale almost 100% greater than Midscale and Economy
- European Capital City ADR's vary by 100% comparing Rome with London or Amsterdam
- 'Baseline' revenues by channel in distribution model reflect overall market experience
- Some fixed costs but majority are % of revenue
- The average ADR used in the model is €112



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# Hotel Distribution: *Hotel Channels and Cost Model*

# Hotel model developed to measure impact of direct / indirect channel shifting

The hotel distribution model was developed in three stages:

- 1 Costs and Revenues**
  - Development of cost base: research within the industry to understand costs for all the main categories:
    - Average costs derived for royalty / non-royalty
    - Ranges of costs developed for each distribution channel
    - Key costs ascertained to be SEM, commissions, merchant discounts, credit cards
    - ADR and likely discounts established by distribution channel
    - Costs defined in main categories of (1) Systems and connectivity, (2) Commissions and fees, (3) Back office and support
    - Revenue per channel normalised to an ADR of €112
- 2 Channel Mix**
  - Establishment of 'average' industry mix of bookings by distribution channel
  - Allocation of mix to direct / indirect categories
  - Most likely channel shift scenarios established
- 3 Modelling**
  - Costs allocated by channel
  - Base channel and average costs derived
  - Channel and average costs derived according to distribution channel mix scenario
  - Dynamic model for Royalty and non-Royalty

# Hotel costs: distribution systems are a major category –varying propensity to be reduced /removed with more direct distribution



System	Function	Cost	Sensitivity to Direct or Indirect
PMS	Property Management System –software application automates the operational functions of a hotel: Front Office, Inventory Management, Reservations and Rooms Management, Housekeeping, Accounting, etc..	Varies - €\$1.8 per booking	No impact
IBE	Internet Booking Engine – a software system that transacts a hotel booking from its website.	Varies - €1.5-4.1 per booking	Varies by channel mix
CRS	Central Reservations System –software database application that distributes information about a hotels inventory, (rates, availability, descriptive content) it transacts reservations and interfaces with customer booking channels. It may or may not direct connect to a PMS. Some voice charges may also be applicable.	€2.5 per booking – not applicable to all channels	Varies by channel mix
Sales & Marketing Fees	Reflect cost of brand and individual hotel marketing	4% overall, higher in direct channels	Not directly related to distribution channel
CRO / Voice	Staff, software and buildings cost of a call centre	€7.6 per booking in this channel	Varies by channel mix
Labour	Some management cost in wholesaler allocation and merchant extranet	€1.12 per booking in this channel	Varies by channel mix
SEO / SEM Acquisition	Drive traffic to websites to Brand.com	3.5% (loyalty), 12% (non-loyalty)	Will increase proportionately with move to Direct Online

# Hotel costs: Commissions and fees are an important cost driver for the indirect versus direct distribution assessment

Activity	Function	Cost	Sensitivity to Direct/Indirect
TA Commissions	Paid on most TA, OTA, TMC bookings	0-10%	Eliminated by Direct bookings
OTA Commissions	Paid on OTA bookings	15%	Eliminated by Direct bookings
GDS Booking Fee	Paid on most TMC bookings	€6.65	Eliminated by Direct bookings
Franchise & Royalty Fees	Payment for use of chain brand and infrastructure	5%	Not directly related to distribution channel but may reduce at group level with Direct
Loyalty Fees	Operation of chain brand loyalty programme	4.7%	Not directly related to distribution channel but may reduce slightly with indirect
Credit Card Fees	Processing fees	1.5-2.5%	Likely to move with channel so not sensitive

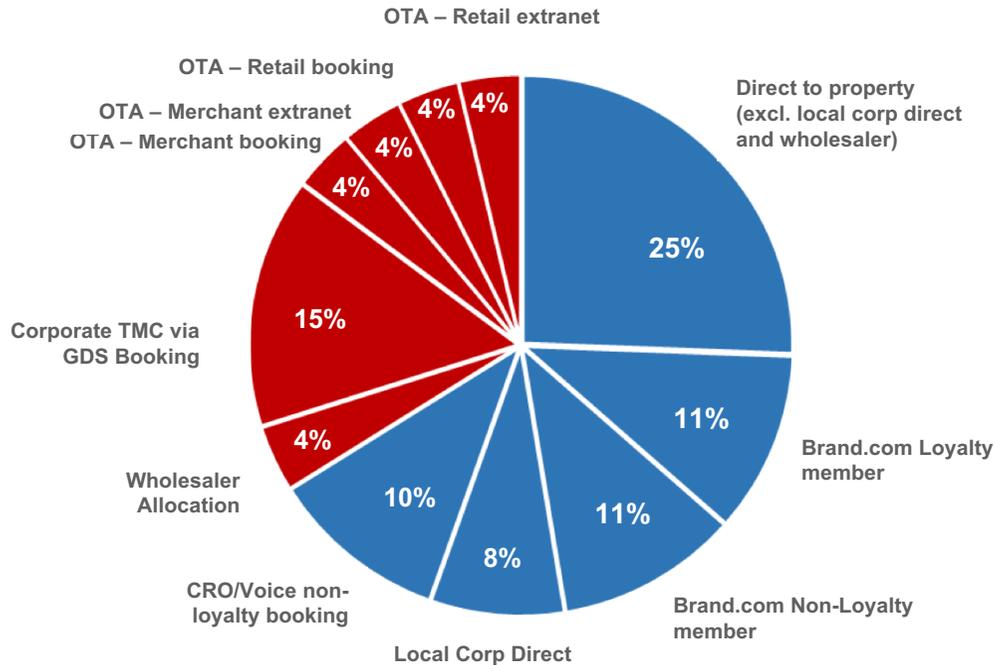
# Hotel costs: Back office and support systems not sensitive to channel shifting and excluded from model



Activity	Function	Cost	Sensitivity to Direct/Indirect
CMS	Channel Management System – is a software application for hotel rate distribution and management tool distributing rates, inventory, rate rules to OTA's GDS' and booking engines. It interfaces with a PMS	€1.8 per booking	No impact
RMS	Revenue Management System – software application of disciplined analytics that predicts consumer purchasing behaviour so as to optimise room availability with best rates to achieve highest revenue growth.	€1.35 per booking	No impact
Content Management	A content management system – is a software application for hotels that manages and distributes all of its descriptive text, pages, images, pictures, videos to websites, GDS, OTA and other booking systems	€1.8 per booking	No impact
Switch	The switch is a central communications hub that connects hotel CRS' to other computer systems, i.e.: GDS, OTA. It facilitates transactions between systems: booking, modification and cancellations	€1.7 per booking	High impact but difficult to isolate
Extranet	A low cost, web enable controlled access interface to an OTA and other sales distribution sites for hotels to supply rates, availability, text and images, etc.	Eliminates CRS and other connectivity charges	

# Hotel Distribution Mix - Bookings % by Channel

Hotel Cost and Revenue Model Base Case Distribution Channel Mix



- The channel mix data has been sourced from TravelClick Demand 360 Europe.
- Sub-categorisation has been developed after researching other industry information and industry discussions.
- Largest part is direct to hotel – MICE, walk-in, IT and other groups. This part is excluded from the model.
- Brand.com of 22% has been divided equally between Loyalty / Non-loyalty
- Other Direct channels are Local Corporate, CRO/Voice and Wholesale – these are regarded as less effective channels and may be moved to Brand.com
- Indirect channels used are OTA and TMC via a GDS
- OTA total of 16% has been split into four main sub-channels.
- Travelclick global data shows an OTA market share of 14.8% of all bookings, based on revenue. Phocuswright indicates OTA market share is 23.8%, but does not take into account the 24% offline contribution. The impact on the cost modelling in the following pages is marginal.

This analysis uses the Travelclick 'low' estimate of OTA bookings revenue share of 14.8%. Phocuswright data for Europe gives a 'high' estimate of OTA share of 23.8%.

# The Cost Model Platform and Mechanics

## The Model Platform

The cost model has been developed to reflect a 'real world' mix of distribution channels used by a chain franchise hotel and independents that are part of a major representation group.

Costs *per booking* have been sourced from a number of sources for all the quantifiable parts of the distribution chain for every channel.

The model allows the shifting of bookings between channels and the calculation of the cost impact including discounts.

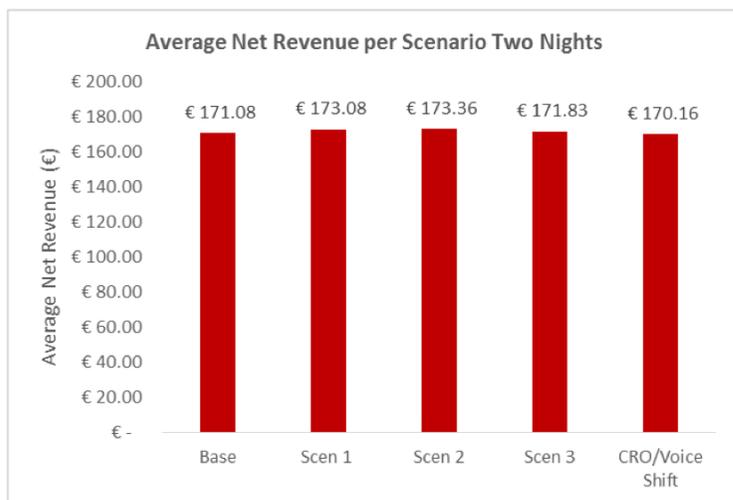
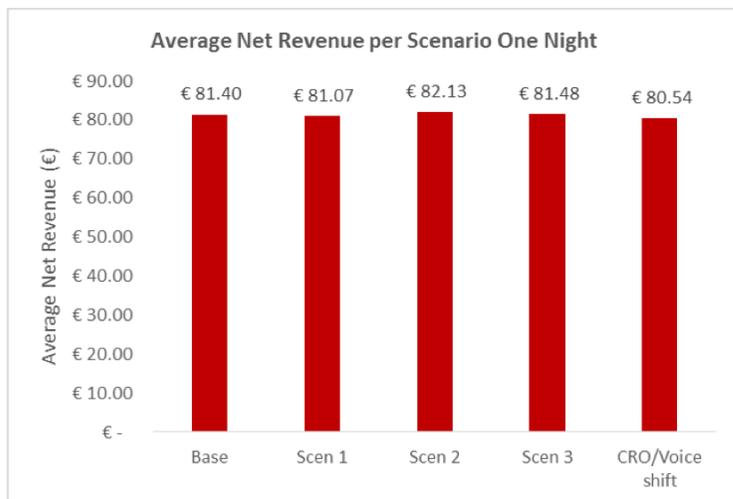
## Model Mechanics

The model allows the assessment of channel shifting from a 'base' mix of channels. The shift is from indirect or less efficient direct channels to hotels' websites 'Brand.com':

- *Base*: 66% direct, 34% indirect
- *Scenario 1*: moves all OTA bookings (16%) to Brand.com
- *Scenario 2*: all wholesaler allocation (4%) to Brand.com
- *Scenario 3*: all corporate TMC (15%) to Brand.com
- *Scenario 4*: excludes all offline channels excluding walk-in

The channel shifts have been used to produce the results for one and two nights.

# Hotel Cost Model Results: Average Net Revenue per Scenario, One and Two Nights, Shows Limited Impact of Shift to Direct



## Major cost impacts:

Data based upon gross ADR minus distribution costs and discounts for chain and hotels selling through a representative group with Royalty. Based on 2016 data.

**Scenario 1:** moves all OTA bookings (18%) to Brand.com - increase in SEM cost, reduced commissions and discounts

**Scenario 2:** all wholesaler allocation (5%) to Brand.com - increased SEM, reduced discounts

**Scenario 3:** all corporate TMC (12%) to Brand.com – increased SEM, reduced commissions and GDS costs

**CRO/Voice shift:** a move within direct distribution cost - all CRO/Voice (7%) to Brand.com – reduced call centre cost, increased SEM

The scenario that appears to be of most interest to hotels – moving OTA bookings to Brand.com produces lower average net revenue over one night and slightly higher over two nights.

*These cost scenarios do not reflect potential impact on occupancy due to loss of key customer services and market reach.*

*This analysis (and subsequent ones) has used the 'low' OTA share estimate of 14.8%. The impact of using the 'high' estimate of 23.8% is to reduce net revenue by 0.3% for one night with similarly limited impact on channel shift.*

# Channel Mix Scenarios - % Mix Bookings by Channel



% of bookings	Direct channels				Indirect Channels						Total*
	Brand.com		Local Corporate Direct	CRO/Voice non-loyalty	Global OTA						
	Loyalty Member	Non-loyalty			Corporate TMC via GDS	Wholesaler Allocation	Merchant	Merchant (Extranet)	Agency	Agency (Extranet)	
<b>Base</b>	10.9	10.9	8.0	10.7	15.1	4.0	3.7	3.7	3.7	3.7	100
<b>Scenario 1</b>	18.3	18.3	8.0	10.7	15.1	4.0	0	0	0	0	100
<b>Scenario 2</b>	12.9	12.9	8.0	10.7	15.1	0	3.7	3.7	3.7	3.7	100
<b>Scenario 3</b>	18.5	18.5	8.0	10.7	0	4.0	3.7	3.7	3.7	3.7	100
<b>Scenario 4</b>	20.8	20.8	0	0	0	0	9.0	9.0	9.0	9.0	100

In each case, the indirect bookings were moved into Direct (brand.com split 50-50 between loyal and non loyal, except scenario 4 where all bookings moved to non-loyal)

\* Totals include Direct to property includes MICE, walk-in and groups booking direct excluding Local Corporate (26%)

Source: TravelClick channel mix 2016, Industry research, Infrata, based on 2016 data

# Cost Model Results – One Night Stay

Average ADR is €112 (rounded up from €117.77)

Channel:	Brand.com				Global OTA					
	Loyalty Member	Non-loyalty	Local Corporate Direct	CRO/Voice non-loyalty	Corporate TMC via GDS	Wholesaler Allocation	Merchant	Merchant (Extranet)	Agency	Agency (Extranet)
ADR Euro	€ 112	€ 112	€ 112	€ 112	€ 112	€ 112	€ 112	€ 112	€ 112	€ 112
Merchant Discount						€ 33.53	€ 16.77	€ 16.77		
Loyalty Discount	€ 8.94									
<b>Effective ADR EURO</b>	<b>€ 102.83</b>	<b>€ 111.77</b>	<b>€ 111.77</b>	<b>€ 111.77</b>	<b>€ 111.77</b>	<b>€ 78.24</b>	<b>€ 95.00</b>	<b>€ 95.00</b>	<b>€ 111.77</b>	<b>€ 111.77</b>
<b>Distribution System Fees</b>										
PMS	€ 1.78	€ 1.78	€ 1.78	€ 1.78	€ 1.78	€ 1.78	€ 1.78	€ 1.78	€ 1.78	€ 1.78
CRS	€ 2.51	€ 2.51		€ 2.51	€ 2.51		€ 2.51		€ 2.51	
Connectivity	€ 1.54	€ 1.54	€ 1.54		€ -		€ 4.10		€ 4.10	
Commissions					€ 11.18				€ 16.77	€ 16.77
GDS					€ 6.65					
CRO/Voice				€ 7.59						
Labour						€ 1.12		€ 1.12		€ 1.12
<b>Other Fees</b>										
Franchise	€ 5.14	€ 5.59	€ 5.59	€ 5.59	€ 5.59	€ 3.91	€ 4.75	€ 4.75	€ 5.59	€ 5.59
Sales & Marketing	€ 4.11	€ 4.47	€ 4.47	€ 4.47	€ 4.47	€ 3.13	€ 3.80	€ 3.80	€ 4.47	€ 4.47
Loyalty	€ 4.83									
Credit Card	€ 2.57	€ 2.79	€ 2.79	€ 2.24	€ 1.68		€ 1.43	€ 1.43	€ 1.68	€ 1.68
SEM/SEO	€ 3.24	€ 13.41								
<b>Total Cost</b>	<b>€ 25.73</b>	<b>€ 32.10</b>	<b>€ 16.17</b>	<b>€ 24.18</b>	<b>€ 33.86</b>	<b>€ 9.94</b>	<b>€ 18.37</b>	<b>€ 12.87</b>	<b>€ 36.90</b>	<b>€ 31.40</b>
<b>Net Revenue 1 Night</b>	<b>€ 77.10</b>	<b>€ 79.67</b>	<b>€ 95.60</b>	<b>€ 87.59</b>	<b>€ 77.91</b>	<b>€ 68.30</b>	<b>€ 76.63</b>	<b>€ 82.13</b>	<b>€ 74.87</b>	<b>€ 80.37</b>

# Cost Model Results – Second, and each additional stay Nights

Channel:	Brand.com				Global OTA					
	Loyalty Member	Non-loyalty	Local Corporate Direct	CRO/Voice non-loyalty	Corporate TMC via GDS	Wholesaler Allocation	Merchant	Merchant (Extranet)	Agency	Agency (Extranet)
ADR Euro	€ 112	€ 112	€ 112	€ 112	€ 112	€ 112	€ 112	€ 112	€ 112	€ 112
Merchant Discount						€ 33.53	€ 16.77	€ 16.77		
Loyalty Discount	€ 8.94									
<b>Effective ADR EURO</b>	€ 102.83	€ 112	€ 112	€ 112	€ 112	€ 78.24	€ 95.01	€ 95.01	€ 112	€ 112
<b>Distribution System Fees</b>										
PMS										
CRS										
Connectivity										
Commissions					€ 11.18				€ 16.77	€ 16.77
GDS										
CRO/Voice										
<b>Other Fees</b>										
Franchise & Royalty	€ 5.14	€ 5.59	€ 5.59	€ 5.59	€ 5.59	€ 3.91	€ 4.75	€ 4.75	€ 5.59	€ 5.59
Sales & Marketing	€ 4.11	€ 4.47	€ 4.47	€ 4.47	€ 4.47	€ 3.13	€ 3.80	€ 3.80	€ 4.47	€ 4.47
Loyalty	€ 4.83									
Credit Card	€ 2.57	€ 2.79	€ 2.79	€ 2.24	€ 1.68		€ 1.43	€ 1.43	€ 1.68	€ 1.68
SEM/SEO										
<b>Total Cost</b>	€ 16.66	€ 12.85	€ 12.85	€ 12.29	€ 22.91	€ 7.04	€ 9.98	€ 9.98	€ 28.50	€ 28.50
<b>Additional Nights</b>	<b>€ 86.17</b>	<b>€ 98.92</b>	<b>€ 98.92</b>	<b>€ 99.48</b>	<b>€ 88.86</b>	<b>€ 71.20</b>	<b>€ 85.03</b>	<b>€ 85.03</b>	<b>€ 83.27</b>	<b>€ 83.27</b>

# Definitions: 'Channels to market'

(in order or listing in Infrata model)

Sold via direct sale channels  
(excluding walk-in and MICE)

	Channel	Connectivity	Definition
1	Loyal brand.com	Booked on hotel's website	Reference to a hotel guests status, as being part of the frequent guest affiliate/loyalty programme, often providing access to discount rates, addition of ancillary products and services during a stay at the hotel
2	Non-loyal brand.com	Booked on hotel's website	A term referring to hotel guests who are not participating as members of the frequent guest/loyalty programme
3	Local corporate direct	Booked via phone direct to the hotel, or via an extranet.	Refers to a hotels business mix, and references bookings that are made by/for guests staying at the hotel where a local company has a contracted rate at the hotel, and for bookings made direct to the hotel, and not via an intermediary.
4	CRO/Voice	Bookings made through the Central Reservations Office (CRO), or call center providing live reservation services via the telephone	This requires, offsite staff, office space, access to live inventory in booking systems and generally 24 hour coverage.

Indirect sources/channels

5	Wholesalers	Bookings for contracted net rates made direct or via extranet direct to hotel	3rd party organizations that sell hotel room nights. Wholesalers are companies that buy rooms in bulk, or contract an allocation of rooms to sell on a time release basis. Wholesalers then sell them to travel agents and OTAs, allowing hotels to generate more sales. Wholesalers are operating in the B2B segment, meaning they do not sell directly to the public but to other 3rd party sites and distribution channels.
6	TMC via GDS	Booked via GDS	Travel management company - travel agency sold focusing on corporate bookings. Rates are mainly negotiated via RFP process, and made available through the GDS along with all other transient rates/inventory.
7	Merchant Model (OTA)	Booked via OTA	The commercial model of an OTA (online travel agency), that contracts a net rate from a hotel and marks it up with it's commission. The main characteristic of a Merchant Model OTA is that the guest pays the OTA at the time of booking a room (as an undisclosed agent acting in its own name, therefore becoming the "merchant"), and the OTA pays the hotel when the actual stay occurs
8	Merchant Model (extranet) (OTA)	Booked via OTA	References a booking that is a merchant model, and the booking is made through an extranet (manually maintained inventory), as opposed to a distribution system (dynamically maintained inventory).
9	Agency (OTA)	Booked via OTA	The commercial model of an OTA (online travel agency). The main characteristic of the Agency Model is that the guest pays the Hotel directly when the stay is consumed and the hotel pays the OTA commission after the stay has occurred.
10	Agency (extranet) (OTA)	Booked via OTA	References a booking that is a Agency model, and the booking is made through an extranet (manually maintained inventory), as opposed to a distribution system (dynamically maintained inventory).

	Term	Definition
11	Affiliate review	Product review sites may be supported by providing affiliate links to the websites that sell the reviewed items, for instance in travel the main review site is TripAdvisor
12	Agency (extranet) (OTA)	Travel agency sold through an online travel agent using the agent's extranet
13	Agency (OTA)	Travel agency sold through an online travel agent
14	Back office	Refers to a hotels on site operational staff that serve the front office teams, they do not interface directly with hotel guests, and generally these include: finance & accounting, reservations, revenue management, sales & marketing, etc.
15	Brand.com	A term referencing an Hotel chain's own website. May also be referenced as supplier.com
16	Commissions	Generally refers to a payment made to an IATA registered travel agency for booking a hotel room. It is generally 10% of the net room rate for the duration of the total stay, and applies only to bookings that are made for commissionable rates (indicated in the rate terms/conditions) to IATA registered, or locally authorised travel agencies / hotel booking agencies.
17	content aggregator	A content aggregator is an individual or organization that gathers Web content (and/or sometimes applications) from different online sources for reuse or resale.
18	Content management	A content management system – is a software application for hotels that manages and distributes all of its descriptive text, pages, images, pictures, videos to websites, GDS, OTA and other booking systems
19	Corporate	Refers to a hotels business mix, and references bookings that are made by/for guests staying at the hotel whilst on business, who are part of a corporation. Other segments in the business mix might include: leisure, government, meetings & conferences, groups, etc.
20	CRS	Central Reservations System, is a software database application that distributes information about a hotels inventory, (rates, availability, descriptive content) it transacts reservations and interfaces with customer booking channels. It may or may not direct connect to a PMS.
21	Extranet	A low cost, web enable controlled access interface to an OTA and other sales distribution sites for hotels to supply rates, availability, text and images, etc. Manually maintained by the hotel's reservations staff.

	Term	Definition
22	Franchise	A hotel franchise is a management agreement that provides certain services (brand, reservation system, marketing, support, etc) in return for regulations, procedures, and for a fee. It can be compared to a chain/brand. Some examples include: Best Western, Choice
23	Front of house	Refers to a hotels on site operational department that come in direct contact with its guests on a day to day basis, and includes: Reception, Guest Reltaions, Bell Staff, Concierge, Housekeeping, Maintenance and Food & Beverage service staff
24	GDS	Global dsitribution systems company such as Amadeus, Travelport or Sabre, that provides travel agencies with transactional systems and software to make travel itinerary bookings, providing unbiased access to airlines, hotel, car, rail, cruise, etc inventory
25	IBE	Internet Booking Engine – a software system that transacts a hotel booking from its website.
26	Inventory management	The practice of managing a hotel's inventory in order to maximise its revenue from the local market's supply and demand. The management incorporate revenue and channel management, for the hotel's customer mix, booking systems and generally refers to Bedroom inventory, but may also include conference and banqueting space, as well as food and beverage outlets.
27	Leisure agent	Travel management company working for leisure travellers
28	Metasearch	Meta-search sites or fare aggregators conduct searches across multiple independent sources of inventory (OTA, Meta, Supplier.com) and displays the results of those shopped sites. Some examples include Trivago, Kayak, and Skyscanner
29	OTA	An online travel agency, allowing consumers to book air, car, hotel, rail, etc direct on their website, some examples include: expedia.com. booking.com
30	PMS	Property Management System –software application automates the operational, and transactional functions of a hotel: Front Office, Inventory Management, Reservations and Rooms Management, Housekeeping, Accounting, etc..
31	Representation company	A company that provides services to independent hotels, in order for them to compete with large global hotel chains. For some sort of fee, representation companies provide services that may include any combination of: a CRS for distribution to OTA's, GDS', central marketing, central sales teams, a brand.com with IBE, loyalty program. Some examples include: Preferred Hotels & Resorts, Worldhotels, Small Luxury Hotels

	Term	Definition
32	Revenue channel management	Revenue and channel management is the day to day practice at a hotel of adjusting its inventory (rooms, rates and availability) in order to maximise revenue making and adjust according to market supply and demand conditions
33	Rich media	Digital advertising term for digital content that includes advanced features like video, audio or other elements that encourage viewers to interact and engage with the content.
34	Rich media content aggregator	Platform for aggregating rich media.
35	SEM	Search engine marketing - use of 'paid ads' to enhance screen position and therefore clicks on a website
36	SEO	Search engine optimisation - use of complex algorithms to optimise positioning ranks in search return.
37	Social	Social media - distribution through facebook and other similar sites
38	Switch	A central communications hub that connects hotel CRS' to other computer systems, i.e.: GDS, OTA. It facilitates transactions between systems: booking, modification and cancellations
39	TMC	Travel management company - travel service provider usually working for business clients
40	Tour operator	A tour operator typically combines tour and travel components to create a leisure package holiday. They advertise and produce brochures to promote their products, holidays and itineraries.

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**Infrata**



Ian Lowden  
Infrata

5 Chancery Lane,  
London, WC2A 1LG

+44 (0)20 3440 5916

[ian.lowden@infrata.com](mailto:ian.lowden@infrata.com)

Carlos de Pommes  
Cambiio

Old Rectory  
Weybridge, KT13 8DE

+44 (0)7747780301

[cdp@cambiio.com](mailto:cdp@cambiio.com)