



Can Hoteliers Take Back the Initiative from the Online Travel Agencies (OTAs)?

| By Max Starkov

Hoteliers can drastically reduce reliance on the OTA channel by embracing the Direct Online Channel and carefully employing ROI-centric initiatives including website redesign, website optimization and SEO, SEM, email marketing, online media and sponsorships, mobile marketing and proven social media initiatives.

There is no doubt hotel distribution has changed dramatically over the past 16 years since the advent of the “commercial” 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” i.e.:

- Are cost-effective
- Generate the most bookings
- Protect rate parity and price integrity
- Reach the targeted customer segments

Based on the above fundamentals, which of the following main distribution channels should be the main focus for hoteliers in 2011?

Distribution Channel	Cost per Booking - Major Hotel Brands	Cost per Booking - Independent Hotels & Resorts
Channel A	\$40 - \$120	\$75-\$150
Channel B	\$24.50 - \$66	\$42.85 - \$74.50
Channel C	\$2 - \$5	\$8.50 - \$12.50

Note: Major Hotel Brands: Based on LOS of 2 nights and ADRs ranging from \$100 - \$300/night. Independent Hotels & Resorts: \$75 - \$150 per booking. Based on LOS of 2 nights and ADRs ranging from \$150 - \$300/night.

It’s obvious, isn’t it? Channel C is by far the most cost-effective distribution channel: it is 10-15 times cheaper than Channel A and 4-10 times cheaper than Channel B.

Channel C is obviously the only main distribution channel in the above table that ‘deserves’ to be the main focus in 2011, especially in this new and optimistic economic environment of growth in travel demand, occupancy rates, ADRs and RevPARs.

Curious which channel represents what in the above professional quiz? Here are the correct answers:

- Channel A: Indirect Online Channel/OTAs
- Channel B: GDS Travel Agent
- Channel C: Direct Online Channel (Hotel Brand Website)

Having completed the above cost analysis, you would think that the Direct Online Channel would be the main focus for hoteliers, and they would be investing heavily in this channel and trying to shift market share from the OTAs and GDS Travel Agent channels. Wrong!

In just three short years since 2008, hoteliers' direct online channel lost significant market share to the Online Travel Agencies (OTAs), who increased their booking contribution by a staggering 45%! This is a serious setback for the hospitality industry and a return to the bad practices of the post 9/11 era.

OTAs enjoyed a market share increase of 45% in 2010

Here are some disturbing stats from the Top 30 Hotel Brands:

- In 2010, only 67.3% of the online bookings for the top 30 hotel brands came from the direct online channel (i.e. the major hotel brands own websites: Marriott.com, Hilton.com, etc), while 32.7% came from the indirect online channel (the Online Travel Agencies—OTAs) (eTRAK Report).
- In comparison, in 2008, 75.2% of all CRS online bookings came from the brand website, while 24.8% came from the OTAs (eTRAK).
- In other words, OTA contribution increased from 11.80% of total CRS bookings in 2008 to 17.10% in 2010 i.e. OTAs saw an increase of nearly 45% (HeBS Digital Research).
- This constitutes a significant increase of OTA contribution, compared to 2007, when 75.9% of all CRS online bookings came from the brand website and only 24.1% of the online bookings came from the indirect online channel (OTAs).

Here are the reservation sources for Major Hotel Brands in 2010 vs. 2008 (eTRAK Report)

Top Hotel Brands' CRS Hotel Bookings	Share of CRS Reservations - 2010	Share of CRS Reservations -2008
Internet (Online Channel)	52.3%	47.6%
Including:		
Direct: Brand Website	67.3%	75.2%
Indirect: OTAs	32.7%	24.8%
GDS Travel Agent	22.1%	27.3%

Voice	25.6%	25.1%
Total for CRSs	100%	100%

Overall for the industry, in 2010 indirect online channel (OTA) contribution to hotel online bookings was 40% (PhoCusWright).

As a result of this market share gain by the OTAs, revenue leaked from hotels to the OTAs in the form of abnormally high merchant commissions reached \$5.4 billion in 2010 alone (HeBS Research). Read more in HeBS' recent article "[Déjà Vu: The Billion Dollar 'Leakage' Continues to Drain the Hospitality Industry.](#)"

Why aren't hoteliers investing more in the direct online channel?

In addition to the obvious reason that selling your hotel via the OTAs is the "lazy man's approach" to distribution, there are a few more reasons for that, including the assumption that selling through the OTAs is "free."

- Many hotel companies (including a number of major hotel brands) exhibited a typical "knee-jerk" reaction to the deteriorating economic environment in 2008-2010, and "succumbed to the devil" by embracing the indirect online channel (OTAs) to compensate for decreased business.
- Many hotels had been accommodating the OTAs with bigger discounts, unique promotions (e.g. 24-hour sales) etc., thus jeopardizing their direct online channel and destroying years-worth of achievements such as rate parity, best rate guarantees, and travel consumer perceptions that it is better to deal with the supplier directly.
- Independent hotels are overwhelmed by this rapid shift from offline to online distribution and often fail to compete for their fair share of the market. The main reason is the lack of understanding that Internet marketing is not an expense, but an investment with immediate returns at very high ROIs. Another reason is the perception that cutting-edge Internet marketing services and technologies are out of reach and accessible only to large hotel chains.
- Franchised properties believe that the major hotel brands "take care of the Internet" for them, thus they miss serious local revenue-generating opportunities.

Naturally, we do not envision a scenario where 100% of Internet bookings are made via the direct online channel. The OTAs and other intermediaries in the indirect online channel do play a needed role in certain areas of the travel planning and purchasing process e.g. dynamic

packaging (air+hotel, air+hotel+car, etc.) for leisure destinations. Even in pre-Internet years, approximately 25% of all hotel bookings in the U.S. came via the indirect channel (travel agents, tour operators, and wholesalers).

So what should the OTA fair share be? Now, 16 years after the advent of the Internet distribution channel, the most cost-efficient distribution and marketing 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.

On the contrary, due to dramatic changes in travel consumer behavior, and the inherent demand to deal with the “manufacturer” of hotel and travel products (i.e. travel suppliers like hotels, airlines, car rental companies, etc.), we should be witnessing a decline in the indirect channel contribution.

Just imagine the cost savings if 5%, 10%, 15%, 20% or more bookings are shifted from the indirect to the direct online channel!

Here are some additional findings by HeBS Digital, based on the latest eTRAK benchmark report, surveys and industry data from PhoCusWright, ARC and HeBS Digital’s own research.

The Shift from Offline/Traditional Channel to Online Channel is Permanent:

- 52.3% of overall CRS bookings for the top 30 hotel brands come from the online channel, which is an increase of nearly 10% compared to 2008 when online channel contribution was 47.6%.
- As a reminder, in 2006 the online channel share was 37.6% (eTRAK Report).
- For the industry as a whole, over 45% of all hotel bookings in 2011 (leisure, unmanaged and managed corporate travel) will be via the Internet (direct + indirect online channels) (HeBS Digital Research).

GDS Channel Share Is in Steady Decline:

- GDS Travel Agent contribution to the total CRS bookings of the top 30 hotel brands declined to 22.1% in 2010 from 27.3% in 2008 (eTRAK).
- In retrospect, back in 2006, GDS CRS reservations constituted 31.3% of total CRS bookings for the top 30 brands (eTRAK, industry data).
- Travel Agency Share from Total Travel Market in the U.S. dropped from 41% in 2006 to less than 33% in 2010 (PhoCusWright).
- U.S. Travel Agency Locations have been decreasing at an average rate of 4% every year and their number has declined from over 35,000 in 1995 to less than 14,603 in March 2011 (ARC, HeBS Digital).

The Voice Channel Contribution Is Flat at Best:

- In 2010, voice channel contribution to the total CRS reservations of the top 30 hotel brands amounted to 25.6% of total brand CRS bookings (eTRAK).
- A significant portion of the voice channel bookings are actually bookings directly referred to from the direct online channel and the mobile channel.
- Despite this boost from the direct online and mobile channels, the Voice Channel has been in relative decline for 7th consecutive year (HeBS). Back in 2006, the voice reservations constituted 31.3% of total CRS bookings for the top 30 brands (eTRAK).

The mobile channel is Already a Reality!

Over the past two years, the mobile channel has become an important travel planning and transaction channel in the U.S. and worldwide. Hotel guests and travel consumers in general are already mobile-ready, and hoteliers and travel suppliers have to respond adequately to this growing demand for mobile travel services.

HeBS' own research and other industry sources show that in 2010 between 1.5% - 2.5% of visitors to hotel websites came from consumers accessing the hotel site via mobile devices. Last year travel suppliers and OTAs reported a 3 - 5 times increase in mobile bookings and Google reported 3,000% increase in hotel mobile searches compared to 2009.

By 2014, mobile Internet users will surpass the number of desktop Internet users. The most important statistic though is the number of smartphone users. Smartphones are changing how we do business in hospitality, how we market, how we service customers. There are nearly 75 million smartphone users in the U.S. alone; their number will exceed 100 million by 2014.

In 2011, independent or franchised hotels and resorts, as well as small and mid-size hotel chains and multi-property hotel companies, should focus on building and enhancing their mobile websites. The main focus should be:

- Creating mobile-friendly textual and visual content that presents the hotel product well.
- Enhancing the mobile user-experience via well-developed mobile site navigation, a mobile booking engine widget, mobile calendar of events, etc.
- Increasing website "discoverability" via mobile SEO and mobile SEM (e.g. Google mobile AdWords) and online media initiatives.
- Making the mobile website more interactive via mobile-social media initiatives, interactive sweepstakes and contests.
- Soliciting sign-ups to the mobile opt-in list via the traditional hotel website and the mobile website, via hotel email marketing campaigns and various sweepstakes and contests, such as interactive scavenger hunts, QR Code promotions, etc.
- Tracking conversions and user behavior via mobile analytics (e.g. Omniture) and special tracking phone functionality.

The Bottom Line for Hoteliers: Focus on the Direct Online Channel

Hoteliers do not have many options when considering other non-OTA distribution channels. As mentioned above, the GDS Travel Agent and Voice Channels are in steady decline over the past years. In our view, the only viable option to drastically reduce reliance on the OTA channel is for the industry to embrace the Direct Online Channel.

There is no doubt that hoteliers need to invest in the direct online channel. Hoteliers need a robust direct online channel strategy accompanied by adequate marketing funds to be able to take advantage of the steady growth in the Internet channel and the shift from offline to online bookings in hospitality due to declining GDS and voice channels. 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.

Furthermore, due to the fact that today's travel consumers live in a perpetual "digital information cloud", hoteliers need to employ multi-channel marketing and distribution strategies. Multi-channel marketing has already become the norm and is the foundation for a smart direct online channel strategy. In this environment, the hotel website, SEM campaigns, email marketing, social media presence, mobile, etc. have a symbiotic relationship. Unleashing a marketing promotional campaign simultaneously across all available marketing channels produces a compounded effect and far greater returns than each individual marketing format.

About the Author and HeBS:

Max Starkov is Chief eBusiness Strategist at Hospitality eBusiness Strategies (HeBS). Hospitality eBusiness Strategies (HeBS Digital), the industry's leading full-service hotel digital marketing, website design and direct online channel strategy firm based in New York City (www.HospitalityeBusiness.com).

HeBS Digital has pioneered many of the "best practices" in hotel Internet marketing, social and mobile marketing, and direct online channel distribution. The firm has won over 130 prestigious industry awards for its digital marketing and website design services, including numerous Adrian Awards, Davey Awards, W3 Awards, WebAwards, Magellan Awards, Summit International Awards, Interactive Media Awards, IAC Awards, etc.

A diverse client portfolio of over 500 top tier major hotel brands, luxury and boutique hotel brands, resorts and casinos, hotel management companies, franchisees and independents, and CVBs has sought and successfully taken advantage of the firm hospitality Internet marketing expertise offered at HeBS Digital. Contact HeBS Digital's experts at (212) 752-8186 or info@hospitalityebusiness.com.