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Will the Hospitality Industry Tango with Tingo?

I By Max Starkov

On March 21, 2012, TripAdvisor subsidiary Smarter Travel Media launched Tingo.com, a new hotel-booking site. This new OTA site is an affiliate of Expedia.com, which means the site uses Expedia's inventory feed and pricing and receives part of Expedia's booking commissions. Tingo's main value proposition and big selling point is that it will refund the difference to customers if the price of the room they have booked on Tingo.com actually drops after booking.

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The press release announcing the launch of Tingo.com had the provocative title: "Travelers Overpaid Millions for Hotel Rooms in 2011: Tingo Comes to the Rescue." It further proclaimed that "In 2011 alone, Americans could have saved nearly $314 million if they had had access to a site like Tingo.com."
How anti-industry is a statement like this one? It makes the industry look like a bunch of corporate thieves who are cheating and overcharging the traveling public to the tune of hundreds of millions of dollars. Tingo.com to the rescue, indeed!

Back in February of this year I published an article on HOTELS Magazine, "Can TripAdvisor Transform Itself From an Industry Foe to an Industry Friend?," in which I argued that after its "divorce" from Expedia, TripAdvisor still remained a foe of the industry and that TripAdvisor had to make a clear choice: Continue its anti-industry, pro-OTA, and one-sided pro-travel consumer policy and business model; or dramatically change its corporate attitude toward the industry and its business model.

I argued that TripAdvisor needed to overhaul its business model and make the site industry- and advertiser-friendly. It needed to dramatically improve its perception in the industry and invest in online self-serve campaign management technology to enable micro-campaign management for the highly-fragmented hospitality industry, including opening the "Show Prices" functionality to smaller and mid-sized hotel companies, independent hotels and resorts.

I warned that if TripAdvisor failed to do that, it would end 2012 more like a 600-pound gorilla from its current 800-pound gorilla status, and by 2014 would be reduced to mere 400-pound-gorilla status.

My old business friend Frances Kiradjian, Founder & Chair at **The Boutique & Lifestyle Lodging Association**, provided the following feedback to my article: "Agree with your synopsis and hope that TripAdvisor takes your suggestions seriously. This was actually very generous of you to point them in the right direction."

So how does Tingo.com fit into TripAdvisor's strained relations with the hospitality Industry?

With the launch of what de facto is another OTA website, it is clear that TripAdvisor has not paid any attention to my advice and continues on its path as a pro-OTA and anti-industry player.

I truly expected that after its "liberation" from Expedia, TripAdvisor would try everything possible to repair its strained relations with the industry and try to embrace the industry and send a strong, unequivocal message to hoteliers: "I am no longer an OTA subsidiary and I am an industry friend. I am now part of the direct online distribution channel and I am on your side. I will work with you to understand your need periods and help whenever possible. I am unbiased and will work with you to improve the quality and credibility of customer reviews and help you address customer concerns. I will help you reach travelers interested in your destination and in your hotel."

None of the above happened and TripAdvisor has continued conducting business as usual. Now comes Tingo.com, an affiliate of Expedia, TripAdvisor's former master. This is it? Who advises this newly independent public company?

Let's analyze the viability of Tingo.com

To begin with, Tingo.com has no unique content, pricing or inventory of its own. Its only value proposition – refunds when and if a lower hotel rate becomes available – is based on factors that are at the mercy of the other OTAs and the travel marketplace as a whole. Expedia could replicate Tingo's offering within five minutes or less. Orbitz already offers and widely publicizes similar automatic refunds.

Tingo.com's business model does not take into consideration the following:

- Hospitality is experiencing rising travel demand and miniscule new supply, which results in increases in all three performance metrics. As reported by STR, in February 2012, which by default is the lowest of the low seasons for most of the country, the U.S. hotel industry's occupancy rose 3.5, its ADR was up 4% and RevPAR increased 7.7%.

- With travel demand rising, how many hotels will lower their rates to begin with? Increasing rates over time as occupancy rates rise is the prevailing trend today, not the other way around.

- In addition, booking windows, i.e., how well in advance people book hotels, have shrunk to their lowest point ever, due to the full transparency of the online channel and the exploding mobile channel, where 65%-80% of all mobile hotel bookings are made for the same day!

In other words, Tingo.com's main selling point – that it will refund the difference to customers if the price of the room they have booked drops after booking – is practically mute and irrelevant.

There is a bigger picture here that involves the fierce battle of the industry with the OTAs. Rising demand means that the OTAs' merchant commissions are already shrinking due to fierce push back from the major hotel brands and the industry as a whole. Contracts with the OTAs are up for renewal this year and the major hotel brands will be pushing for commissions below 15%. Hilton has already suspended its merchant agreement with Orbitz over commissions, last room availability, etc. Independent hoteliers would not be willing to pay merchant commissions above 20%.

Sooner or later, to counteract decreased merchant commissions and the growth of travel demand as the economy improves, OTAs will be forced to re-institute booking fees that were dropped back in 2009. How would the Tingo.com business model work when there are non-refundable booking fees involved? I am not even discussing how the paltry 7%-8% affiliate commission would allow Tingo.com to be a sustainable business venture. The cost of establishing a new travel consumer brand is staggering! In my view, Tingo.com will most probably not "explode" as a new travel site, but linger out there.

Tingo.com is another wrinkle in TripAdvisor's confused business model:
As discussed, the launch of Tingo.com is a direct affirmation of TripAdvisor's continued anti-industry and pro-OTA business model. Analysis of this business model clearly shows how confused and misguided TripAdvisor is as a company:

<u>Focusing on a handful of big OTA and Hotel Brand Advertisers</u>

The vast majority of current advertisers on TripAdvisor are big OTAs and a handful of major hotel brands. More than 80% of TripAdvisor revenues come from the "Show Prices" CPC program, which is exclusive to major OTAs and hotel brands.

TripAdvisor's requirements for minimum advertising spend practically exclude all of the 52,000 U.S. hotel properties from display advertising and the "Show Prices" CPC program on the site. There is no online self-serve campaign management technology to enable micro-campaign management for the highly-fragmented hospitality industry. Compare this to Google AdWords, where any hotel can become an advertiser and launch live paid search campaigns within 1.5 minutes!

At the same time, more than 95% of advertising dollars in hospitality are controlled by the property and at the property level. You can do the math: at a typical 4% from room revenue spend on marketing and advertising and $107.2 billion room revenue in 2011 for the U.S. hospitality industry, the annual advertising budget controlled at the property level is in excess of $4.3 billion! Yet 52,000 U.S. hotels and more than 300,000 hotels worldwide are practically excluded from the main advertising formats on the site.

Focusing on "Show Prices" CPC Program

Over the past few years TripAdvisor has turned its "Show Prices" CPC program into the centerpiece of the website. The "Show Prices" availability/pricing widget dominates the website and is smacked right in the center of any property page on the site. As mentioned, more than 80% of TripAdvisor's advertising revenue comes from the "Show Prices" CPC program.

There is no doubt that TripAdvisor has carved a niche for itself in the "last mile" of the online travel consumer's travel planning process. But exactly what portion of this "last mile" does TripAdvisor occupy? Is TripAdvisor considered a hotel pricing/availability research tool like Expedia, Kayak.com, etc. by the traveling public? NO!

TripAdvisor is the largest hotel customer review site: This is how travel consumers have perceived the site since its inception in 2000; this is how TripAdvisor describes and promotes itself. Typically traveler consumers visit TripAdvisor after they have selected the hotel or hotels at which they are planning to stay to read what their peers have said about the hotel or hotels they have already selected.

Let's face it: TripAdvisor is poorly equipped to handle any of the three main criteria in hotel search and hotel selection: hotel location, price and availability. The mapping capabilities of the site pale in comparison to Google Maps or Expedia's hotel location maps; the depth of information about any hotel is miniscule compared to any major hotel brand or Expedia; the real time availability and pricing functionality on TripAdvisor is from the 1990s and consists of an avalanche of pop-up screens that flood your browser.

This is why travel consumers do their hotel location, availability and price research on meta-search sites like Kayak.com, via search engines like Google, Yahoo and Bing, on major hotel brand sites like Marriott or Hilton, and on OTA sites like Expedia. Once they select the hotel at which they would like to stay, become comfortable with the location and price, and check availability, then and only then they go to TripAdvisor to read customer reviews.

In my view, this is the reason why only a few of the visitors to TripAdvisor ever click on the "Show Prices" functionality. Naturally this is proprietary information that is not being disclosed in the public domain, but I believe the "Show Prices" click-through rates (CTR) are far below the similar CTR rates on Expedia, Kayak.com or Marriott.com. In other words, only a small fraction of the total number of visitors click on the "Show Prices" widget, compared to people who click on Expedia.com's or Marriott.com's search/availability/price widgets. I do not believe TripAdvisor's "Show Prices" CTR rate is above 1% of the total number of visitors.

In other words, "Show Prices" serves less than 1% of unique visitors to the site and TripAdvisor is not monetizing the remaining 99%.

In conclusion, I believe Tingo.com is another declaration of TripAdvisor's misguided and confused anti-industry and pro-OTA business model. By failing to position itself as an industry friend, TripAdvisor is denying itself access to the bulk of advertising dollars in the hospitality industry, controlled at the property level. As for Tingo.com, initiatives like this one further alienate the industry from TripAdvisor and ultimately will weaken further the site's market position.

Click here to read the entire blog article on HOTELSMag.com, as well as a full selection of Max Starkov's blog articles on hot industry topics and latest trends in the online channel in hospitality (FREE registration required).

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