

April | 2002



Hospitality
eBusiness
Strategies

Brand Erosion or How Not to Market Your Hotel on the Web

A closer look at the Total Online Distribution Channel Strategy | By Max Starkov

9/11 created a major shift in how consumers book travel. The crisis created a dramatic drop in demand, which forced travel suppliers to introduce unprecedented discounts. Airlines, hotels and all other travel suppliers struggled to sell seats, rooms, car rentals to a significantly shrunk leisure and business travel market. The Internet allowed for smart and proactive suppliers to connect with their customers, move inventory and stay ahead of the competition. At the same time it punished those suppliers who had no clear Internet strategy and understanding how the Web and online distribution works.

Hospitality eBusiness Strategies, Inc.
14 East 60th Street, Suite 400 New York, NY 10022
Phone: 212-752-8186 Fax: 212-202-3670
Web: www.hospitalityebusiness.com

The Internet: the greatest direct-to-consumer channel

Over the past six months all major airlines adopted, once and for all, the "Direct Web Distribution Model" i.e. direct consumer sales via the Internet. The abolishment of base travel agency commissions by the major airlines now, six months after 9/11, was no coincidence. The airlines needed this time to squeeze whatever they could from the old distribution system and enhance their new Web distribution strategies. It is a direct result of the newly gained realization that Direct Web Distribution Model works.

The airlines have perfected website and precision e-mail marketing to promote their special offers and sell seats. Actually, eMarketing has become the airlines' preferred marketing tool. Why? It is cheap and it works! For example, precision e-mail marketing offers up to fivefold increase in response rates and tenfold lower conversion costs than direct mail (IMT Strategies). The Internet has saved the airlines tons of marketing dollars since 9/11. In place of full-page newspaper ads, the airlines used, extensively, precision e-mail to target specific market segments with unparalleled accuracy in their Web-only fare promotions and special offers campaigns. The Internet has firmly established itself as the airlines' distribution channel of choice. Over 18% of all airline sales in 2001 were done via the Web.

As a result, over the past six months, leisure and business travelers alike realized that all of the very good travel deals were to be found not through a travel agent, or calling a supplier directly, but on the Web.

What is the situation in hospitality?

Unlike the airlines, hospitality companies, except for several major brands, did not take full advantage of the Internet as the cheapest and most efficient distribution medium. Not only that, but many of them became victims of their lack of understanding how the Internet works. Several major online discounters took advantage of the situation and increased market share at the expense of hotels' direct and GDS distribution.

There is nothing wrong with using online hotel consolidators to upload your distressed inventory. But it is very wrong to turn these online services into your primary and, in many cases, only Web distribution channel. Why? If your hotel has not implemented all other aspects of the Total Online Distribution Channel Strategy discussed below, your hotel will appear on the Web only through your discounted rates offered by the online consolidators. Online travelers can find your hotel only through major online discounters or their affiliates. Which means that Internet users will always "bump" into your discounted rates and nothing else.

Therefore, as far as the Internet consumer is concerned, these discounted rates are de facto your published hotel rates. Period. The result is major brand erosion and price dilution with catastrophic future repercussions. If consumers consistently find on the Web only your discounted rates in the \$129-\$139 price range, how can your hotel convince them to pay the \$199-\$229 rack rates -- online or offline?

What can hoteliers do to avoid brand erosion?

The answer is very simple. Hoteliers must adopt a comprehensive Total Online Distribution Channel Strategy, which focuses on two major areas, the Direct and Indirect Web Distribution Models.

The Internet is all about positioning your hotel at all "touch points" of interaction with the potential customer. If the online traveler looks for accommodations in your destination, he/she should be able to find your hotel website first through the search engines, your website affiliates, destination portals and CVB websites, and second your hotel through the online

channels beyond your website: major online travel services, incoming operators, as part of packages offered by tour operators, demand-generation services like Hotwire, impulse-purchasing services like Site59, and perhaps via a discounter.

Direct Web Distribution Model: In hospitality the Direct Web Distribution Model is a two-step process:

- Hotel website marketing: turning your hotel website into a 24/7 sales force: booking engine, website optimization, website functionality, customer e-mail capture, eCRM features.
- Search engine strategy: search engine optimization of your website, making your website visible to the search engines, improving its positioning on the search engines, listing it with 1500 search engine worldwide, domain name strategy, etc.

Indirect Web Distribution Model:

- Online distribution channels beyond the hotel website: there are over 60 major online distribution channels that are accessible to your hotel.

Here are some comments on these models you should consider with utmost urgency:

Direct Web Distribution Model

This direct-to-consumer model should become the foundation, the centerpiece of your hotel's online distribution strategy. Why? It is the cheapest way to distribute your inventory: the cost of a booking via your website could be as low as \$3-\$3.50 while a reservation via your call center would cost a minimum of \$9. It provides you with long-term competitive advantages. It lessens your dependence on intermediaries, discounters or traditional channels that are about to become obsolete.

Hotel website marketing

The hotel website is a good starting point, but you should remember that your website does not exist in isolation and is only part of the Total Online Distribution Channel Strategy, only part of the bigger picture.

The hotel website is not an online brochure, it is your 24/7 sales and marketing tool. It should be simple, nice, informative, useful and efficient. That is why many major brands and lodging companies have streamlined and simplified their websites (e.g. Marriott.com). Do you have a real-time booking engine? The booking engine should be prominently displayed on the Home Page and become the "heart" of the hotel website. All web pages within the website should prominently feature the "Online Reservations" or "Book Now" button.

Numerous studies show that savvy Internet users, most likely a substantial portion of your most valuable customers, will not book a hotel that does not offer a real-time booking on its website. And if you have a booking engine is it capable of booking in real-time transient, corporate rates, preferred rates, special accounts and promotional rates, hotel packages and group reservations?

Do you offer a full array of bookable hotel packages, family packages, and weekend specials on your website? Do you offer online real-time booking for group and convention housing inventory? Can your tour operators book their allotments and special FIT rates on your website?

Branded hotels without stand-alone websites represent a very interesting case. We firmly believe that all branded hotels should have their own website strategy, independent of the corporate global website strategy. Why? The Internet does not care so much about global positioning, as it cares about location-specific website positioning. This is even more valid in hospitality. A proactive Hilton property can position itself on local portals, directories, and search engines, DMOs, CVBs and incoming online services that are beyond the reach of the corporate headquarters.

Affiliate programs and customer e-mail capture programs are essential part of the website marketing strategy. Forget online banner advertising. It does not work, especially on the property level. Better focus on permission-based email marketing to your customer list, weekly e-Newsletters, and Web-only and email promotions.

Search Engine Strategy

85% of Internet users rely on search engines to locate relevant information on the Web (e.g. Yahoo, AltaVista, etc). Independent lodging companies that are not part of a major brand (e.g. Hilton) and do not have the marketing budget and name recognition of a major brand must rely even more on search engine referrals.

Therefore positioning well your hotel website on the Web is an extremely important component of the Direct Web Distribution Model. When people search for "New York Hotel" does your hotel appear as listing # 149 on search result page # 11? Or does it appear at all? Internet users rarely go beyond the second or third results page.

How can your hotel improve its ranking on the top search engines? This is a two-step process. First, your website should be optimized for the outside cyber-world. Website optimization deals with the target keywords (the visible hotel and location specific keywords), page titles, description tags and meta-tags (invisible keywords), page size and download speeds, etc. Second, once the site is ready, comes the search engine strategy. It includes domain name strategy (registering of alternative domain names and sub-domains), master submissions to 1,500 search engines worldwide, automated monthly submission services, express registrations with the top search engines, etc.

Though some of the major brands have done a good job with their global search strategy, none of them fares particularly well on the local search engine level. For example, in order to be picked up by the search engines, a local Hilton property has to implement specific target keywords, description tags and meta tags that are completely different from the global Hilton.com website. Hence the need a local branded hotel to pursue its own website and search engine strategy.

Indirect Web Distribution Model

There are numerous online distribution opportunities for the proactive hotelier. As mentioned there are over 60 major channels accessible to your hotel: online leisure travel services, corporate services, meeting and event planner services, wholesalers and discounters, Internet reservation systems, demand-collection websites, reverse-bidding marketplaces, travel auctions, impulse-purchasing sites, last-minute travel services, CVB initiatives, local portals, hotel directories, etc.

Most of these services are free; some operate with rack rates and charge agency commission, some work with net rates and modest allotments or free sell.

For example hoteliers should make sure that their properties are bookable on the websites of their local, state and regional CVBs and private Destination Marketing Organizations (DMOs) and incoming services. For example more than half of the New York City hotels are not bookable on

the CVB's website and on the NY State website (ILoveNY.com). Local directories and portals are also a good source of online bookings.

Case study: An Independent Hotel in NYC

Here is the cyber-portrait of a typical independent hotel in NYC. Similar is the situation of any other independent hotel nationwide.

The hotel website is 2-3 years old; content is stale, navigation is counter-intuitive.

Heavy Home Page (75,000-100,000 bytes), two-three times the recommended maximum size of 35,000 bytes, download speeds of 40-80 seconds at 33.6K-56K dial-up access (AOL benchmark), two to four times slower than the maximum recommended speed of 20 seconds.

Use of frames, splash pages, Flash and heavy JPEG images.

The booking engine is "well hidden" somewhere within the website and offers only rack rates. No bookable hotel packages, corporate rates, specials and promotions.

No customer e-mail capture, customer support or eCRM tools.

Incomplete target keywords, none or counterproductive description tags and Meta tags.

Hotel website practically invisible on the Web: not among the top 100 results when searching with the most popular search keyword "New York Hotel" on all major search engines (Yahoo, Google, Alltheweb, Looksmart, Alta Vista, Lycos, etc).

The hotel is present on only a handful of the 60 major online distribution channels, and these usually are online discounters.

Hotel's discounted rates "populate" the Web through 2-3 major discounters like HRN and Travelscape (Expedia); hotel's own rack rates, specials, promotions and packages cannot be found on the Web, which severely undermines hotel's brand and revenue management efforts.

The overall "Cyber-Score" of the hotel is in the 30-35 point range, out of possible 110 (see Hospitality eBusiness Strategies proprietary Quick Internet Evaluation Form)

Why should Hoteliers be concerned?

If your hotel does not currently generate at least 8%-10% of your bookings from the Web, you should be concerned. Why? This year over 7% of all revenues in hospitality will be Internet-generated. If you do not fare better than the national averages, you are already behind your pro-active competitors.

Online distribution is here to stay. Travel suppliers, including hoteliers, are beginning to realize that online distribution is changing the "classic" distribution spectrum. Airlines and car rental companies are well ahead of hoteliers in aggressively adopting online distribution. This year the airlines will record 18% (28% by 2004) and car rental companies 20% (25% by 2004) of all their revenues from online bookings. Three years from the Internet will contribute 18% of revenues in hospitality (PhoCusWright) and online bookings will surpass GDS bookings.

Hoteliers are beginning to like what they see: online distribution cuts costs, attracts affluent customers and lessens the dependency on more traditional and expensive channels. Over 192 million North Americans are active Internet users (Nielsen) and 37 million of them have already purchased travel online. The Internet offers vast, interactive, rich media and most importantly, growing distribution market. All major brands have figured this out. Some hotels already generate 20%-30% of their bookings from the Internet. Indeed, Clarion Universal Studios in Orlando reports that 40% of all room revenue is sourced online. Marriott will generate \$1 billion in online sales this year.

Whether you are an independent or branded hotel, a major hotel chain or hotel management company, you can stay ahead of your competitors and capture new market share with an effective Total Online Distribution Channel Strategy. Implementing this strategy does not have to be an expensive proposition or a lengthy process. For example, Hospitality eBusiness Strategies' highly successful Internet Revenue Booster™ consulting services include 30-day implementations even for its Total Online Distribution Channel Strategy package.

There has never been a better time to embrace the Internet and online distribution in particular. But you have to know that the Web can be either your best ally or your worst enemy. An experienced eBusiness hospitality consultancy can help you navigate and utilize the Internet to its fullest potential.