

# HeBSdigital

## Online Travelers Prefer Booking Directly on the Hotel Website

69% of US leisure travelers prefer to buy online directly from a supplier while just 27% prefer to buy from intermediaries | By Max Starkov and Jason Price

Recently Forrester Research found that 69% of US leisure travelers prefer to buy online directly from a supplier while just 27% prefer to buy from intermediaries. This is yet another confirmation that hoteliers should focus more than ever on their direct-to-consumer online distribution and should work hard on regaining control of the Web from the online discounters and intermediaries.

## Background:

This year over 13% of all revenues in hospitality will be generated from the Internet (PhoCusWright). Three years from now the Internet will contribute over 20% of all hotel bookings. 53% of all Internet bookings in hospitality will be direct to consumer (i.e. via hotel-owned websites). 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.

### Suppliers vs. Intermediaries

Many surveys and projections by Internet research companies show that travel suppliers including hoteliers will maintain their lead as the preferred channel to book online. This share will depend to a great extent on how proactive the travel suppliers will become and how aggressive the direct-to-consumer sales efforts will be. Hoteliers are especially vulnerable due to the changing online distribution dynamics and the proliferation of the merchant model.

### Direct vs. Indirect Share in Online Hotel Bookings:

|                         | 2001 | 2002 | 2003 |
|-------------------------|------|------|------|
| Hotel Branded Websites: | 54%  | 52%  | 53%  |
| Intermediary Websites:  | 46%  | 48%  | 47%  |

(2002 PhoCusWright)

Jupiter Research provides a similar projection for the online market share of travel suppliers vs. intermediaries in 2002, but its estimate for 2005 is much more favorable to the travel suppliers:

|                            | 2002 | 2005 |
|----------------------------|------|------|
| Online Intermediary Share: | 48%  | 45%  |
| Supplier Branded Websites: | 52%  | 55%  |

(2001, Jupiter Research)

Many surveys show that online customers prefer dealing directly with the travel suppliers including hoteliers when purchasing travel online.

Here is how online US leisure travelers respond to the question "If you knew that the price of travel would be the same, who would you prefer to buy travel from?"

|                   |     |
|-------------------|-----|
| ▪ Travel Supplier | 69% |
| ▪ Travel Agency   | 27% |
| ▪ Other           | 4%  |

(2002, Forrester Research)

Here is how Online Bookers handle the question: "Which of the following types of websites have you used to book travel in the past year?"

|                   | 2000 | 2001 |
|-------------------|------|------|
| ▪ Travel Supplier | 45%  | 63%  |
| ▪ Online agency:  | 57%  | 51%  |
| ▪ Consolidator:   | 7%   | 24%  |
| ▪ Portal          | 32%  | 20%  |

*(Forrester Research 2002, multiple responses accepted)*

US leisure travelers who have not booked travel online in 2001 or did not use the Internet also preferred to deal with a travel supplier in 2001:

Lookers and Other Travelers (non-Internet users)

"How have you typically booked leisure travel over the past year?"

|                                  | Lookers | Other Travelers |
|----------------------------------|---------|-----------------|
| ▪ Called a Travel Supplier       | 40%     | 28%             |
| ▪ Visited a branch location:     | 26%     | 16%             |
| ▪ Offline Travel Agency:         | 25%     | 16%             |
| ▪ Someone else booked my travel: | 20%     | 10%             |

*(Forrester Research 2002, multiple responses accepted)*

A recent Forrester Research survey confirms earlier studies that US leisure travelers prefer dealing directly with the hotel when describing how they have purchased lodging online over the past 12 months (Forrester, October 2002):

|   |     |
|---|-----|
| Over the phone from the supplier:       | 34% |
| On the supplier's web site:             | 24% |
| Through an agency/intermediary website: | 13% |
| In person from the supplier:            | 9%  |
| Through an offline travel agent:        | 8%  |
| Through a consolidator site:            | 4%  |
| Through a portal site:                  | 2%  |
| Other:                                  | 7%  |

Profile of the Online Traveler

Knowing the online customer's purchasing behavior, habits and concerns can help hoteliers better target the ever growing online population of active travel purchasers. The profile of the online travel customer is important to determine the customer decision-making process and to formulate a comprehensive eMarketing strategy.

The age and gender breakdown of online travel consumers in the US corresponds closely to the demographics of the US Internet user population. Research by Ernst & Young and IDC indicates that airline travel and hotel reservations are far more popular among men than women.

| <b>US travel consumers, by gender:</b> |     |
|--|-----|
| Male:                                  | 57% |
| Female:                                | 43% |
| <i>(TIA 2001)</i>                      |     |

  

| <b>US travel consumers , by age</b> |     |
|-------------------------------------|-----|
| <35                                 | 39% |
| 36 – 54                             | 50% |
| 55+                                 | 11% |
| <i>(TIA 2001)</i>                   |     |

Although Internet penetration rates are higher among younger groups, older people tend to have more disposable income for leisure travel.

#### Online Travel Purchase Behavior

As mentioned, over 192 million North Americans are active Internet users (Nielsen) and 40 million of them purchased travel online in 2002. The Internet offers vast, interactive, rich media and most importantly, growing distribution market

Convenience, price comparison, and lower prices are the three main reasons why Internet users buy travel products online:

| <b>Reasons why US Internet users buy travel products online:</b> |       |
|--|-------|
| Convenience:   | 85.8% |
| Easier to compare prices:  | 83.6% |
| Lower prices:  | 68.5% |
| <i>(2000, Gomez Advisors, Multiple responses allowed)</i>        |       |

Overnight lodging is high on the list of preferred online travel services, second only to airline tickets:

| <b>Purchase habits by travel category:</b>     |   |
|--|---|
| ▪ 84%  | Airline tickets                         |
| ▪ 78%  | Overnight lodging                       |
| ▪ 59%  | Rental Cars                             |
| ▪ 33%  | Tickets for museum, sports events, etc. |
| ▪ 18%  | Amusement park tickets                  |
| ▪ 17%  | Travel package                          |
| ▪ 8%   | Cruise                                  |
| <i>(2001, TIA, multiple responses allowed)</i> |   |

Jupiter Media Metrix estimates that nearly 60% of the 2001 online population in the US (141.5 million users at that time), used the Internet to research travel. Only 50% of those searching for information online actually made their purchases online. The other 50% looked online, but booked offline, due to privacy issues, security concerns, purchasing habits, or needed to speak with a live agent to finalize the travel booking, etc.

### **US Internet Users Trip Planning Activities, 2001:**

- Do not use the Internet for travel shopping: 42%
- Research and purchase travel online: 29%
- Research travel online, but purchase offline: 29%

*(Jupiter Media Metrix)*

PhoCusWright also reports that 50% of US Online Travelers looked online, but booked offline:

### **Internet Usage Habits of US Online Travelers:**

|                                  | <b>2000</b> | <b>2001</b> |
|----------------------------------|-------------|-------------|
| Visited travel-related websites: | 84%         | 91%         |
| Looked online, bought offline    | 52%         | 50%         |

*(PhoCus Wright)*

### The Online Bookers

The Online Travelers come from the most affluent customer segments worldwide. These affluent customers are exactly the guests any major hotel brand would like to have. The following table clearly shows why online travelers in general and especially the online travel bookers are very appealing to any hospitality company:

### **Online Travel Bookers - Prime Targets: (Forrester Research 2002)**

|                         | <b>Online Bookers</b> | <b>Online Lookers</b> | <b>All Other Travelers</b> |
|-------------------------|-----------------------|-----------------------|----------------------------|
| Income                  | \$76,000              | \$64,900              | \$45,900                   |
| Leisure travel spending | \$2,750               | \$2,060               | \$1,240                    |
| Trips planned in 2002   | 4.4                   | 4.0                   | 3.5                        |
| Stayed in hotel in 2001 | 73%                   | 67%                   | 48%                        |

*(Forrester Research 2002)*

Online bookers, who are US leisure travelers that have booked travel online, tend to be upscale, frequent travelers that are Internet-savvy and know their way around the Web. They have evolved over the past 24 months and have cut their reliance on portals and media sites (e.g. AOL, Yahoo) to book travel. They tend to head to supplier websites and online agencies like Orbitz.com. Another trend, negative for the major hotel brands, is the increased use of online consolidators, which tripled in client base and room inventory since 9/11.

### Online Concerns

Online travelers are concerned about protecting their personal and financial information. Customers also rate high is customer service support during traveling. Fears about credit card security have declined over the years, unlike privacy concerns which tend to stay relatively stable (around 40% of respondents). Still security and privacy issues are the main reasons preventing Online Lookers to convert into Bookers:

| <b>"Why don't you book travel online?"</b>          |     |
|---|-----|
| Concerns about security:                            | 41% |
| Concerns about personal information:                | 40% |
| It's easier to buy offline:                         | 39% |
| My reservations may not be processed correctly:     | 31% |
| It's faster to book offline:                        | 25% |
| Too difficult to change reservations:               | 25% |
| Internet prices may not be the lowest:              | 24% |
| Better prices offline:                              | 20% |
| <i>(2002 Forrester, Multiple responses allowed)</i> |     |

A quick review of the above table shows that most of the concerns can be handled either by simple implementations on the website, such as well versed and visibly posted site security statement, privacy policies, or by introducing lowest price guarantees, or improving the booking engine functionality or the actual descriptions that lead toward the reservation process in order to alleviate the fears of misplaced reservations or difficulties to change reservations.

#### Direct-To-Consumer Online Distribution to the Rescue

The direct-to-consumer model should become the foundation, the centerpiece of any hotel company's online distribution strategy. Why? First of all, The Internet is the ultimate "Direct Distribution Medium". Second, as shown from the surveys above, the online traveler shows a clear preference to deal directly with the hotel and its website.

Why direct distribution is so important? It provides the hotel with long-term competitive advantages and lessens dependence on intermediaries, discounters or traditional channels that are about to become obsolete.

The Internet is all about positioning your hotel website at all "touch points" of interaction with the potential online customer. If the online traveler looks for accommodations in your destination, he/she should be able to find your hotel website through the search engines, your destination-focused website strategy, Pay-per-click services, online travel and hospitality directories and indexes, your website affiliates, destination portals, CVB websites, etc. Naturally this requires a very focused and robust direct online distribution strategy, website optimization, search engine strategy, introduction of email marketing and real-time booking functionality, etc.

Only when the hotel has exhausted all of its opportunities in the Direct Online Channel, should hoteliers start selling their inventory via the Indirect Online Channel. Naturally within the third-party online channels hoteliers should give preference to the online agency model travel services, and the opaque rate services like Hotwire which protect the hotel brand and price integrity, and then and only then and only if needed use the merchant model operators such as Hotels.com.

#### Conclusion:

By 2005 over 30% of all travel bookings will be completed on the Internet. 20% of all hotel bookings will be done online. Hoteliers are less aggressive in embracing direct-to-consumer online distribution than airlines and car rental companies. Yet, online travelers prefer dealing directly with travel suppliers, including hotels. This year 13%-14% of all hotel bookings will come from the Web. 53% of them will be direct-to-consumer. From these national averages, how does your hotel company compare and where

are your competitors? If you do not fare better than the national average, you are already behind your proactive competitors.

The direct-to-consumer model should become the foundation, the centerpiece of any hotel company's online distribution strategy. It provides the hotel with long-term competitive advantages and lessens dependence on intermediaries, discounters and traditional channels about to become obsolete. An eBusiness consultancy like Hospitality eBusiness Strategies can help you develop a robust direct-to-consumer online distribution strategy, preserve your price and brand integrity and stay ahead of the competition.