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Boosting Direct Online Bookings for Maximum Results

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The Internet distribution channel has become the most important distribution channel in hospitality. Hotel bookings made via the direct online channel (on the hotel's own website), however, are clearly more cost-effective than indirect online channel bookings, and hoteliers must care about where their Internet bookings are coming from.

The Asia Pacific region is leading the recovery in global hotel performance, achieving the strongest revenue per available room (RevPAR) growth during the first four months of 2010, up 24.1% to US\$83 (Deloitte). The region's occupancy rose 11.7 percent to 65.3 percent, average daily rate increased 13.1 percent to US\$130.06, and revenue per available room jumped 26.4 percent to US\$84.9 (STR Global). These numbers should correspond with a rise in hotel bookings made via the direct online channel, as hoteliers won't need to rely as heavily on the OTA's to put heads in beds.

Not all Internet bookings are created equal. The direct online channel provides long term benefits and competitive advantages—and pays off handsomely.

The Direct vs. Indirect Online Channel

How did the top 30 hotel brands do in the direct online channel in 2009? eTRAK reports that 70.9% of online CRS bookings came from the direct online channel (i.e. the major hotel brands' own websites), while 29.1% came from the indirect online channel (the Online Travel Agencies—OTAs like Expedia, Orbitz, Priceline, etc).

This constitutes an increase of the contribution from the OTAs compared to 2008, when 75.2% of online bookings came from the direct online channel, while 24.8% came from the OTAs. Compare this to 2007, when the direct channel contributed 76% of CRS Internet bookings.

In other words, since 2007 we have witnessed a significant shift from the direct to the indirect online channel and an increase in the OTAs' market share. This is a serious setback for the hospitality industry.

How are the other travel sectors fairing in Internet distribution?

Here is an overview of the Direct vs. Indirect Online Channel utilization in the main travel sectors:

	Direct	Indirect
Hospitality: Top 30 Hotel Chains		
Source: eTRAK	70.9%	29.1%
Hospitality: Overall for the Industry		
Source: HeBS	60.0%	40.0%
Airlines: Jet Blue	95.0%	5.0%
Airlines: Overall for the Industry	68.0%	32.0%
Car Rental	68.0%	32.0%
Cruse Lines		
Source: PhoCusWright	39.0%	61.0%

Why Hoteliers Must Focus on the Direct Online Channel

Why aren't hoteliers investing more in the direct online channel? There are many reasons for that, including the erroneous one that selling through the OTAs is "free". Hoteliers are failing to compete for their fair share of the market, the main reason being the lack of understanding that Internet marketing is not an expense, but an investment with immediate returns at very high ROIs (Return on Investment). Another reason is that cutting-edge Internet marketing services and technologies are out of reach and accessible only to large hotel chains.

Case Study 1: Cost per Booking in the Direct vs. Indirect Online Channel

- **Direct Online Channel (Hotel Website): \$12.92 per booking**

(Cost per booking via the hotel's own website, including website hosting and maintenance fees, marketing spend, campaign management fees, and Omniture analytics. Based on 530,000+ bookings in 2009 via hotel websites from HeBS' hotel client portfolio)

- **Indirect Online Channel (Online Travel Agency-OTA): \$107.57 per booking**

(Based on average 2009 ADR in NYC = \$215.14 and 2 night LOS = \$430.28 x 25% OTA commission)

Difference between the cost of a Direct Online Channel and Indirect Online Channel booking = **8.3 times!**

It is far more cost effective to sell your rooms via the direct online channel compared to the OTA channel (indirect online channel). On an annualized basis, just imagine what this difference in distribution cost constitutes for a typical New York City 200+ room hotel:

Case Study 2: How to Add Half a Million Dollars to the Bottom Line

With a 77.2% average occupancy rate, an ADR of \$215.14 in 2009 (STR), and 45% of bookings being made via the Internet (industry average 60:40 direct vs. indirect online ratio):

- Cost of Direct Online Channel Distribution: 7,608 bookings x \$12.92 = \$98,295
- Cost of Indirect Online Channel Distribution: 5,072 bookings x \$107.57 = \$545,595

(Calculation based on a hypothetical NYC hotel of 200 rooms @ 77.2% average occupancy rate = 56,356 roomnights/2 nts average stay = 28,178 bookings total, of which 12,680 are Internet bookings (45% of total bookings). Direct online bookings = 7,608 (60%) and Indirect Online Bookings = 5,072 (40%))

In addition to being the most cost effective distribution channel, the direct online channel provides long term benefits and competitive advantages for hoteliers:

- Prevents brand and price erosion
- Cross-Channel / Multi-Channel marketing and customer engagement
- Allows the hotel to "own" the customer

- Builds brand loyalty
- Engages customers pre-, during, and post-stay

Having completed the above cost-analysis, and knowing what the additional competitive advantages are for driving bookings through the hotel's own website, why aren't hoteliers investing more in the direct online channel?

Hoteliers can Successfully Compete for their Fair Share of Revenues

Hoteliers can, and must, compete for their fair share of revenues to be made from the online channel by investing in the direct online channel, and by embracing best practices and new Internet marketing technologies and formats:

- Auditing the Internet marketing budget: The marketing budget should be overhauled to become ROI-centric—hoteliers should re-evaluate their overall budget, and shift funds from offline to online.
- Website Re-Design: the hotel website has become the first, the only, and in many cases, the last point of contact with the travel consumer. Enhancing and optimizing the hotel website needs to be the top priority of any hotelier. Your hotel website must reflect industry best practices and be user-friendly, search engine friendly, travel booker-friendly, and Web 2.0 friendly.
- Web 2.0 Optimizations & Applications: An integral part of the de-commoditization strategy, there are multiple, cost-efficient ways to connect with current and future guests via Web 2.0 initiatives. Hoteliers must align the interactivity of the hotel website with the hyper-interactive behavior of today's travel consumer both on the hotel website and on the social web. Create multiple opportunities for your website visitors to communicate with your hotel (interactive sweepstakes, hotel blogs, customer feedback forms, calendar of events, etc.)
- Search Engine Optimization (SEO): By optimizing your current website, you may take advantage of the cheaper organic search visitors to your site. You must optimize both your website's textual and visual content for travel consumers by carefully describing and featuring all aspects of your hotel (also make sure you don't have any outdated information on the website—i.e. expired package or old events), as well as perform a thorough search engine optimization (SEO) of the whole website with unique H1 headers, optimum keyword density of the body copy, unique page titles, description and keyword tags on each page.
- Search Engine Marketing (SEM): Any ROI-centric marketing plan needs to include paid search on the leading search engines Google, Yahoo, and MSN. With paid search you can track post-impression and post-click activity, bookings, revenue, and room nights from every campaign. It's also the fastest way to increase your presence in all types of search (including meta search, web 2.0 search, local search, etc.). Most importantly, you may adjust marketing spend instantaneously based on ROIs.

- Email Marketing: Email Marketing to the hotel's own opt-in list as one of the most cost-effective, highest ROI-generating initiatives available. Technology fees for email capture and storage are nominal, and once a template is designed the costs for sending email out are extremely low. Your opt-in list has chosen to hear from you and they will most likely either book when they get messages from you or store your information for when they are ready to travel.
- Strategic Linking: Strategic Linking at the property level is the business strategy that establishes links from highly relevant and authoritative websites to the franchised hotel website (i.e. to build the "Link Popularity" of your hotel website). Link popularity refers to the number and quality of incoming links that are pointing to your website. Each relevant incoming link to your website is considered by the search engines as a "vote of confidence" in your website.
- Display Advertising & Online Sponsorships: Display advertising (banners) and online sponsorships work even in this economy, especially for larger full-service hotels and resorts, and hotel and resort chains. HeBS consistently sees good ROIs from online display advertising and online sponsorships, and recommends budget allocations for these online advertising formats—but in order to do this successfully it is important to very carefully target your key market segments and monitor results closely.
- Social Media + Social Marketing: You must have an official brand presence on the major social media sites – otherwise you are letting others shape the conversation about your hotel. Create a positive presence and exude brand voice on high-traffic social media platforms. This will drive traffic to your website, increase brand loyalty/engagement, and help with your SEO.
- Mobile Web + Mobile Marketing: PhoCusWright projects mobile bookings to reach \$160 million in 2010 alone. Hotel guests—past, current and potential—are increasingly becoming mobile ready, and hoteliers have to respond adequately to this growing demand for mobile services. Start with a mobile ready website and then start building your m-list (mobile opt-in list).

The Bottom Line: Hoteliers Must Invest in the Direct Online Channel

We are not suggesting that 100% of Internet bookings need to be made via the direct online channel. The OTAs and other players 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+car+tour) 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, etc)

Now, 15 years after the advent of the Internet distribution channel, the most cost efficient distribution and marketing channel ever, the indirect channel contribution should not be higher than 25%. What we should not be seeing is the current industry average of a 40% OTA contribution.

Hoteliers need a robust Direct Online Channel Strategy, along with 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. The direct online channel provides hoteliers with the highest ROIs, builds brand loyalty, and allows the hotel to 'own the customer' – paving the way for future success.

About HeBS

Hospitality eBusiness Strategies (HeBS), based in New York City, is an award-winning, fullservice Internet marketing and Direct Online Channel Strategy firm, strictly dedicated to the hospitality and travel verticals. HeBS has pioneered many of the "best practices" in hotel Internet marketing and direct online distribution. The firm specializes in helping hoteliers build their direct Internet marketing and distribution strategies, boost the hotel Internet marketing presence, establish interactive relationships with customers, and significantly increase direct online bookings and ROIs. A diverse client portfolio of over 500 top tier major hotel brands, luxury and boutique hotel companies, hotel management and representation companies, franchisees and independents, resorts and casinos and CVBs has sought and successfully taken advantage of HeBS' firm hospitality Internet marketing expertise. For more information visit HeBS website www.hospitalityebusiness.com. Contact HeBS consultants at (212) 752-8186 or info@hospitalityebusiness.com.