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In Hospitality, Not All Internet Bookings are Created Equal

I By Max Starkov

Proof in Numbers that Hoteliers Should Invest in the Direct Online Channel

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Dramatic Shift from Offline to Online Distribution

The Internet distribution channel has undoubtedly become the most important distribution channel in hospitality. Last year, 54.2% of overall CRS bookings for the top 30 hotel brands came from the Internet channel, which constituted a remarkable increase of 6.6% vs. 2008. HeBS estimates that 45% of hotel bookings in 2010 will be via the Internet (direct + indirect online channels).

The other two traditional distribution channels, GDS and Voice, have experienced steady declines over a number of years. Here is the eTRAK data for hotel bookings via the CRS of the top 30 hotel brands:

- GDS hotel bookings declined by 3.7% vs. 2008, and constitute 23.6% of total CRS bookings in 2009 vs. 27.3% in 2008. Back in 2006, GDS CRS reservations constituted 31.3% of total CRS bookings for the top 30 brands. GDS share has decreased by 24.6% from 2006 to 2009, when it was reported at the 23.6% level.

- Voice channel hotel bookings declined by 2.9% in 2009 vs. 2008, and now constitute 22.2% of total CRS booking in 2009. The Voice Channel is in decline for the 6th consecutive year (HeBS). Back in 2006, voice reservations constituted 31.3% of total CRS bookings for the top 30 brands. Voice Reservation share decreased to 25.1% in 2008 and 22.2% in 2009.

Direct vs. Indirect Online Channel Dynamics

HeBS estimates that for the hospitality industry in North America, direct online channel contribution in 2010 will be 60% vs. 40% for the 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 and a return to the old bad practices of the post 9/11 era.

Typical of economic times such as the present, the hotel industry (similar to post 9/11) has again "succumbed to the devil" in the face of the major OTAs. Since mid-2008 travel supply has outweighed demand and hoteliers have been more susceptible to panic, resulting in deep discounting and embracing of the OTAs.

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:	70.9 %	29.1%	eTRAK
• Overall for the industry:	60.0 %	40.0%	HeBS

• Airlines :	68%	32%	
○ Jet Blue:	95%	5%	
• Car Rental	68%	32%	
• Cruise Lines:	39%	61%	(PhoCusWright)

It becomes obvious from the above table that hospitality is lagging behind the airline and car rental sectors as far as direct online channel practices are concerned. Please read more our detailed analysis on why OTAs need hotels for their survival more than ever in my recent blog article: Online Travel Agencies (OTAs): Will They Survive the Removal of Airline Ticket Booking Fees?

Not All Internet Bookings are Created Equal

Why should hoteliers care where their Internet bookings come from? The following case study clearly illustrates the cost effectiveness of the direct online channel:

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

o 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)

o 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%))

If the hypothetical 5,072 OTA bookings are instead made via the direct online channel at $12.92 each, the bulk of the OTA distribution cost, namely $480,065, would go directly to the hotel's bottom line ($545,595 – $65,530, i.e. 5072 bookings x$12.92). This is nearly half a million dollars added to the bottom line. Name one hotelier who would not have liked that in 2009!

Naturally, we do not envision a scenario where 100% of Internet bookings are 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%. 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. What we should not be seeing is the current industry average of a 40% OTA contribution.

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

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

- Reduces dependence on OTAs and expensive traditional distribution channels
- 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

Why Don't Hoteliers Invest More in the Direct Online Channel?

Having completed the above cost analysis, we should all ask ourselves: why aren't hoteliers investing more in the direct online channel?

There are many reasons for that, including the obviously erroneous one that selling through the OTAs is "free". Our analysis proves that is not the case.

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 (Return on Investment). 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.

The following case study, based on HeBS' hotel client portfolio for which HeBS provides full-service Internet marketing services and direct online channel strategy advice, clearly shows that investments in the direct online channel pay off handsomely:

Case Study 3: Return on Investment (ROI) from the Direct Online Channel in 2009

Total Room Nights Booked	530,605
Total Revenue Generated:	$63,900,305
Total Marketing Spend:	$2,004,093
Return on Ad Spent (ROAS)	3088% (31:1)
Cost of Website and Campaign Management:	$2,729,893
Return on Investment (ROI)	2,240% (22:1)

Just compare the above ROAS and ROIs to any other return from any other marketing activity!

Hoteliers can successfully 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:

- Website Re-Design
- Web 2.0 Optimizations & Applications
- Search Engine Optimization (SEO)
- Search Engine Marketing (SEM)
- Email Marketing
- Strategic Linking
- Display Advertising
- Online Sponsorships
- Social Media + Social Marketing
- Mobile Web + Mobile Marketing

The Bottom Line: 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, paid search, email marketing, online display advertising and sponsorships, mobile marketing and proven social media initiatives.

Even in this economy, you should not decrease or eliminate your hotel Internet marketing budget. The Internet, and especially the direct online channel, is the only growth channel for hoteliers and the only "light at the end of the tunnel" in this environment. As indicated above, even in these difficult times we see significant ROAS and ROIs from the Internet marketing campaigns we run for our clients.

Market researchers envision growth rates in online travel as high as 11% in 2010 as projected by eMarketer. The online channel, and especially the direct online channel, provides hoteliers with the only viable option for any growth during these trying economic times.

Any comments? Case Studies? We would appreciate your input.

About the Author and HeBS:

Max Starkov is Chief eBusiness Strategist at Hospitality eBusiness Strategies (HeBS), the industry's leading full-service hotel Internet marketing and direct online channel strategy firm (www.hospitalityebusiness.com). 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 strategy, boost the hotel Internet marketing presence, establish interactive relationships with their 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 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. Contact HeBS consultants at (212)752-8186 or info@hospitalityebusiness.com.