

# HeBSdigital

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

Critical Online Distribution Issues Revisited a Year Later | By Max Starkov

A little over a year ago this author published the article "Brand Erosion or How Not to Market Your Hotel on the Web", which created a lot of commentaries and, we hope, made at least some hoteliers re-examine their online distribution strategies. Since 9/11, in times of unprecedented crisis and continued economic downturn, the Web allowed Internet-savvy and proactive suppliers and intermediaries to establish rewarding interactive relationships 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 work. What has changed since May of 2002?

## Direct Online Distribution Has Become a Top Priority

This has been another difficult year for hoteliers. What has changed since May of 2002? To begin with, there is a new realization among hoteliers that something has to be done to change the status quo in online distribution. Hoteliers are becoming more and more frustrated with the fact that they are consistently losing leisure and business customers alike to the online discounters. For many hoteliers Direct Online Distribution has become a top priority.

Last year we concluded that travel suppliers in the other travel sectors were well ahead of hoteliers in aggressively adopting direct-to-consumer online distribution. This continues to be the case a year later. Since 9/11 all major airlines and car rental companies aggressively adopted the "Direct Web Distribution Model" i.e. direct-to-consumer sales via the Internet as the centerpiece of their online distribution strategy. If we include Southwest Airlines, which has a very unique direct-to-consumer online business model, the direct-to-consumer share of U.S. airline online distribution will exceed 62% this year. JetBlue generates over 65% of its revenues through its website.

In the offline world hoteliers enjoy more direct sales (75%) than intermediary sales (25%). In the online world hotels are less aggressive than the airlines about bypassing the intermediary channel. This year for example only 52%-53% of online hotel bookings will be direct sales. Unlike the airlines, hoteliers have difficulty maintaining market share and finding the right formula to deal with online intermediaries. The lack of comprehensive Internet strategies, ineffective online distribution efforts and the explosion of the "merchant model" are partly to blame for the current situation.

Very few hospitality companies were able to take full advantage of the Internet as the most efficient distribution medium over the past year. Many hoteliers continued to suffer from their lack of understanding of the dynamics of Internet distribution. The online discounters took advantage of the situation and increased market share at the expense of hotels' direct and traditional distribution.

Hoteliers' online market share fell from 54% in 2001 to 52% in 2002 and it will take extra efforts to increase this share in the future.

Hoteliers are vulnerable due to the changing dynamics in online distribution and the proliferation of the merchant model. Hoteliers' direct share will depend to a great extent on how aggressive their direct-to-consumer sales efforts will be in 2003 and beyond.

## Hotel Branding on the Web

Anytime an Internet user lands on a website, a branding interaction occurs. This branding interaction can be positive (brand-building) or negative (brand-eroding). The question is, who is the Internet user interacting with and who benefits from the branding interaction?

### On the Hotel Website:

On hotel websites, the branding interaction is between the Internet user and the hotel, its product and offerings. Over the past two years hotel websites have become the main "point of contact" with potential customers. A well functioning, fully optimized hotel website is a real branding asset that serves as the chief instrument to capture new markets, entice potential customers to stay at the hotel and facilitate transactions. Surveys show that overwhelming majority of customers will not stay at a hotel with a poorly done website that does not reflect well the hotel product and the destination. It is becoming a common belief now that if your hotel website is not up to par there is something wrong with the hotel itself.

### On the Search Engines

Search engines are considered major brand builders on the Web. Hotel listings or paid advertising on Search Engines, Directories and Portals (e.g. Google, Yahoo, MSN) contribute directly to the brand building of the hotel itself. Due to the nature of these services and their perceived impartiality, the branding interaction is exclusively between the Internet visitor and the hotel. A natural (algorithmic) listing of the hotel website, paid hotel banner ad or pay-per-click sponsored listing directly contributes to the brand building of the hotel, not of the search engines.

Hotel listings and paid banner ads on the Online Intermediaries:

Some hoteliers claim that by positioning their hotels on the online discounters like Hotels.com, Travelocity or Expedia.com they are "branding" their hotels. We believe that this is a very naïve justification for a very unhealthy Internet distribution strategy. And here is why.

When the Internet user lands on an Expedia.com page, due to the nature of this service as an online intermediary, the branding interaction is exclusively between the Internet visitor and Expedia, and not with the hotel-advertiser on Expedia. In this sense if an Internet user sees a merchant hotel listing or a paid hotel advertising banner on Expedia, the visitor considers this as a positive branding experience benefiting Expedia ("Wow, these guys even have the Waldorf Astoria! Good for them! I made the right choice to visit Expedia!"). Website users tend to view hotel listings and banners in the same manner as pop-up ads and promotional features such as "Featured Hotels" or "Hotel of the Week" and treat them as yet another marketing gimmick employed by the online intermediary to sell them more stuff.

Online Advertising as a Direct Response Tool

Online advertising plays a dual role: as branding and direct response tool. The Web offers hoteliers not only great branding opportunities, but also unlimited opportunities to create interactive relationships with their customers. Email marketing and pay-per-click marketing are only two of the very potent direct-response tools at the disposal of smart hoteliers.

Our experience shows that banner advertising works for hotels only on CVB and other non-transactional destination portals (e.g. Reno.com). Banner ads in general are losing their share as an online advertising format (percentage of total online advertising spending):

Click-through banner rates have dropped from 2%-3% in 1997-1998 to less than 0.3% in 2002, which makes banner ads less and less logical choice as a direct-response vehicle.

Unlike the above scenario, pay-per-click marketing on the search engines, and consumer email marketing are ideal direct-response vehicles and powerful tools in the hotelier's direct-to-consumer online distribution strategy. Pay-per-click marketing is also a great branding tool. At an average 1.5%-3% CTR (click-through-rate) for every 1000 clicks a hotel listing will generate 33,000 - 66,000 pageviews, which are completely free of charge, due to the nature of this advertising format.

The Stockholm Syndrome

Here comes another interesting phenomenon we have observed over the past year: paid hotel advertising on online intermediary sites such as Expedia, Travelocity and Orbitz.

Does it make good business sense to pay online discounters (who already make hefty profit margins from your net rates) to profit even further from your own inability to properly utilize the Internet and to damage even further your brand and price integrity? This is yet another proof of the existence of a new kind of disparity in the hospitality vertical: between smart, Internet-savvy intermediaries on one hand and Web-illiterate hoteliers on the other.

The merchant model has greatly hurt the hospitality industry and has done long term damages to the hotels' brand and price integrity. You don't need a bigger proof than that, just look at the diminishing ADRs. The so called "rate parity" is in fact acceptance of the merchant discounted rates as your rack rates. Your hotel's discounted rates on Hotels.com and Expedia are de facto your hotel's published rates. Though claiming to be "free of charge", these merchant services cost hoteliers dearly. They cause long term damage and downward pricing pressures (both online and offline) beyond repair.

But paying to advertise on the online discounters, on top of these long-term damages, simply doesn't make much sense. We consider hotel-advertisers on the online intermediaries and discounters as being the Web reincarnation of the "Stockholm Syndrome" where the kidnapped victims (hoteliers) fall in love with their kidnapper (online discounters).

Here are few additional thoughts in this respect.

- From a branding perspective, as mentioned above, the hotel presence on an online discounter website (via a merchant listing or a paid banner ad) benefits only the discounter itself, not the hotel. What about hotel banner ads as a direct response vehicle? In most cases the hotel banner on intermediary websites does not link back to the hotel website itself, but opens a page within the intermediary website i.e. this type of advertising is not an effective direct response tool either.
- Experience of some of our clients show that banner advertising on online intermediaries achieves extremely low ROI and benefit primarily the intermediaries themselves, in addition to the total lack of branding effect as discussed above.

What can hoteliers do to avoid brand erosion?

The answer is very simple. Hoteliers must adopt a comprehensive Total Online Distribution Channel Strategy, a comprehensive online channel strategy, which turns the direct-to-consumer

distribution model into the centerpiece of the hotel's Internet strategy and optimizes the balance between the Direct and Indirect Web Distribution Channel.

Online distribution is a very complex undertaking that involves a variety of online channels, services, marketing approaches and sales techniques. Therefore we call the Internet strength of a particular hotel "Sphere of Web Distribution Influence", which we define as the percentage of Direct vs. Indirect online distribution influence, presence and exposure of the particular brand. The higher the Direct Sphere of Web Distribution Influence, the less dependence on online intermediaries. The goal of every hotel company is to exceed the industry national average of 53:47.

The direct-to-consumer distribution 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". 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.

Direct-to-consumer online distribution has the following benefits:

- Puts the hotel in control of its Internet presence and exposure
- Prevents brand and price erosion
- Lessens dependence on online discounters and intermediaries
- Is the shortest path to establishing interactive relationships with customers
- Provides long-term opportunities to benefit from the lifetime customer value
- Is the least expensive way to distribute hotel inventory--direct to consumer!

Direct online distribution is not just a theoretical, "ideal scenario" approach. Many surveys show that online customers prefer dealing directly with the travel suppliers, including hotels, 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?"

#### Direct Online Distribution Channel

Also called "Direct Sphere of Web Distribution Influence", direct online distribution includes Internet distribution channels, business models, marketing programs, and Internet online media techniques that all share the same collective goal-to draw in the Internet user to end up transacting on the hotel website:

The Sphere of Direct Web Distribution Influence is all about benefiting from the Internet as the greatest direct-to-consumer distribution medium. Here are some of the direct channels, models, programs and techniques that share the same commonality: the Internet user transacts directly on the hotel website:

- Hotel website
- Search engine strategy
- Destination-focused Web strategy and initiatives
- Pay-per-click marketing
- Email marketing
- Link popularity creation initiatives
- Non-transactional travel and hotel directories and portals
- Online Event and Meeting Planner Services
- CVB initiatives
- Affiliate programs
- Lowest price guarantees
- Loyalty programs

The Internet is all about positioning your hotel website at all "touch points" of interaction with the potential online customer. When looking at the Direct vs. Indirect market share in hospitality, it becomes obvious that in at least 53% of the cases, the Online Bookers should end up and transact on your hotel website in order for your hotel to be in par with the national averages.

Branded hotels without stand-alone websites represent a very interesting case. We firmly believe that all branded hotels should have their own website strategy, in addition to 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 take full advantage of the popularity of the destination and position itself on local portals, directories, and search engines, DMOs, CVBs and incoming online services that are beyond the reach of the corporate website.

If in 2003 your hotel is not generating at least 53% of its online bookings directly from the hotel website, and your online distribution is skewed toward the intermediaries, then you are not competitive on the Web and run the risk of long term price and brand erosion.

There is another reason why hoteliers should boost their own Internet presence. As a result of aggressive email marketing and Web-only promotions over the past several years, 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 toll-free number, but on the Web. Will online travelers find these travel deals on your hotel website or on the intermediary sites?

The Hotel Website- Your 24/7 Sales Force

Direct online distribution starts and ends with the hotel website. But is your website user-friendly, search-engine-friendly and online booker-friendly? Performing a comprehensive evaluation and website optimization of your hotel website should become a top priority this year if you want to stay competitive and take full advantage of the Direct Online Channel.

What is website optimization? To begin with, a hotel website is not an online brochure. A hotel website is the hotel's only chance to achieve any growth and competitive advantage in these difficult times. It is the hotel's incremental revenue producing "virtual" 24/7 sales office. It is a "living organism" and should constantly evolve to better respond to the dynamics of online distribution and changing patterns of consumer purchasing behavior.

Website optimization deals mainly with three key issues:

- Making the website user-friendly (tiered navigation, relevant and credible copy, easy to use booking technology, customer support, eCRM features, etc)
- Making the website search engine-friendly (relevant, web-friendly copy with embedded keywords, destination-focused website optimization, domain name strategy, target keywords, meta tags, description tags, etc).
- Making the website travel booker-friendly (boosting the bookability features of the website, increasing the comfort level, website credibility, building trust issues, etc)

In other words, your website should be optimized to become robust money making "machine". Partnering with a hospitality eBusiness consultancy specializing in Direct Online Distribution and proficient in website optimization can help turn your hotel website into a 24/7 sales force and achieve much needed growth in revenues and conversion rates through best practices and website optimization strategies.

#### Positioning of Your Website on the Web

Many surveys show that up to 85% of Internet users rely on search engines to locate relevant information on the Web (e.g. Google, Yahoo, MSN, etc). Lodging companies that do not have the marketing budget of the major intermediaries must rely even more on search engine referrals.

Therefore positioning of your hotel website on the major search engines is of critical importance otherwise no one will find your hotel.

Surveys confirm the existence of the so called "50% Factor" - roughly 50% of people that view the first results page of search engine listings go to the 2nd results page, and only 50% of them go to the third results page, and so on. Here's what Bear Stearns analysts say about Internet positioning on major distribution channels: "Our research uncovered that being listed in the top five assures the highest level of bookings, and that after the fifth slot, bookings drop dramatically". In summary, positioning is equal if not more important than pricing for the hotelier to make sound revenue management decisions.

Though some of the major brands have done a good job with their global websites, 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 relevant copy and destination content with specific target keywords, description tags and meta tags that are completely different from the global Hilton.com website. It has to achieve link popularity on its own. Hence, the need a local branded hotel to pursue its own website and search engine strategy.

#### Online Lookers vs. Online Bookers

Another interesting phenomenon is the purchasing habits of online travelers. Jupiter Media Metrix estimates that nearly 60% of the online population in North America (192 million in 2002) uses the

Internet to research travel. 50% of those researching travel information online (online lookers) actually make their purchases online (i.e. become online bookers). The other 50% look online, but book offline, due to privacy issues, security concerns, purchasing habits, or need to speak with a live agent to finalize the travel booking, etc.

PhoCusWright also reports that 50% of US Online Travelers looked online, but booked offline in 2001 (52% in 2000).

Simply put, if 100 people book on your website, at least another 100 will be influenced by your

website to book your hotel, but will make the booking offline (via phone, walk-ins, etc). This underlines further the critical importance of your hotel Direct Online Distribution Strategy and your hotel website visibility to the bottom line.

#### Indirect Online Distribution Channel

The Indirect Online Distribution Channel consists of intermediary (third-party) online services, where the Internet user has access to hotel inventory and information, but transacts on the intermediary's website. There are three types of online intermediaries:

- Agency (Commission-based) Model Services
- Opaque Rate Model Services
- Merchant Model Services

There is nothing wrong with using online intermediaries 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 aspects of the Direct Online Distribution Strategy as discussed above, and your hotel signs up with online merchants like Hotels.com, your hotel will appear on the Web only through your discounted rates offered by these online intermediaries and their affiliates (e.g. Hotels.com has over 34,000 affiliated websites). Which means that Internet users will always "bump" into your discounted rates and nothing else.

Therefore, as far as the online traveler is concerned, these discounted rates are de facto your published hotel rates. Period. The result is major brand erosion and price dilution with serious repercussions. If consumers consistently find on the Web only your discounted rates in the \$129-\$139 price range, how can your hotel convince anybody to pay the \$159-\$179 rack rates -- online or offline?

Once hoteliers have exhausted all opportunities in the Direct Online Channel, then and only then, they should join a selected number of Indirect Online Services, giving preference (in that order) to the agency model, the opaque rate services and at the end and only if they still need help - the merchant model services. Why in that particular order? The answer is very simple. You, the hotelier, control your retail rates on the agency services. Your discounted rates are "hidden" on the opaque rate services and do not damage your price integrity. On the merchants your rates are "naked" and directly compete with your direct customers and existing business. Even among the merchants some services are preferable to others.

Business travel is another major consideration when using the Indirect Online Channel. A major trend over the past years is the blending of leisure and unmanaged business travel on the Web. Are your business travelers booking your hotel via Expedia or Travelocity? These mega online intermediaries claim that 30% of their bookings are business-related. Hoteliers' business travel strategy should become an integral part of their overall Direct Online Distribution Strategy to avoid losing their best paying customers to the online discounters.

Hoteliers should also be mindful of the fact that in 2003 less than 47% of their online revenues should be coming from online intermediaries, while 53% have to be from direct-to-consumer sales (i.e. via the hotel-owned website). If you do not fare better than the national averages, you are already behind your pro-active competitors and your brand and price integrity are in serious trouble.

Unfortunately we still observe many cases where the hotel website contributes 5%-10%, while the online discounters bring 90%-95% of the hotel Internet revenues. These are the "classic" examples of brand and price integrity erosion. On the brighter side, a number of our proactive hotel clients report 25%-35% of their overall revenues coming from the Direct Online Distribution Channel.

## Conclusion

Online distribution is here to stay. The Internet has changed the way travel is being negotiated, managed and purchased. By 2005 over 20% of all hotel bookings will be completed on the Internet. This year alone 13%-14% of all hotel bookings will come from the Web and 53% of them will be direct-to-consumer. How does your hotel company compare to these national averages and where are your competitors? If you do not fare better than the national average, you are already behind your proactive competitors.

It's not just about selling over the Internet at any cost. You have to know that the Web can be either your best ally or your worst enemy. If your online distribution is skewed toward the online discounters, this can permanently damage your brand and price integrity. 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.

There has never been a better time to embrace the Internet and Direct Online Distribution in particular. An experienced eBusiness hospitality consultancy can help you navigate and utilize the Internet to its fullest potential.