A KALIBRI LABS SPECIAL REPORT

Demystifying the Digital Marketplace: Spotlight on the Hospitality Industry

CINDY ESTIS GREEN & MARK V. LOMANNO

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The sponsors and data providers were supportive in both study execution and provision of data but did not participate in the analysis and the findings do not necessarily reflect their opinions on the subjects conveyed in the study. The various data sources were synthesized and analyzed by the authors to develop the themes that are reflected in the book.

Welcome

Dear Fellow Hotel Industry Stakeholders,

If we could choose one word to describe the current state of the hotel industry, that word would be dynamic. Not only is the industry benefiting from some really favorable tailwinds and consumer trends, but it is also energized by the multitude of opportunities for sustaining growth, generating new levels of customer loyalty and using digital innovation to improve the guest experience from the start of the booking process through guests' stay and beyond.

It's also a diverse industry, particularly when you look at the broader accommodation space we operate in. Hotels are by far the largest segment, with branded hotels continuing to generate the fastest revenue growth of all. But of course, it has always been a competitive industry, with a host of booking options, hotel types and lodging options and new business models entering the market.

At the Consumer Innovation Forum (CIF), an American Hotel & Lodging Association committee of which I am a member, we have been dedicated to providing research and education to the hospitality industry on matters relating to digital and distribution issues. Our main goal is to raise awareness of how the digital marketplace impacts the broader hotel industry.

To support the industry in addressing digital distribution evolution, Kalibri Labs has continued to track industry undercurrents to help reveal what hotel brands, owners and operators can do to embrace the changes and position the business for competitive success. The key to greater opportunities is market intelligence, which is why we are proud to present *Demystifying the Digital Marketplace*, a report that builds on the landmark 2012 study. Unprecedented in scope and scale, the rich insights and data provide a framework for understanding market realities as well as embracing opportunities to manage costs and optimize profit contribution.

We could not have reached this point without the support of a strong coalition of partners, including, first and foremost, the American Hotel & Lodging Association (AH&LA) and the American Hotel and Lodging Educational Foundation (AH&LEF), along with the HSMAI Foundation, the Asian American Hotel Owners Association (AAHOA), the Hospitality Asset Managers Association (HAMA), the Hospitality Financial and Technology Professionals (HFTP), and the IHG Owners Association.

The coalition of sponsors is broad and truly reflects a collaborative search for the insights, metrics and strategies to assist decision makers. We encourage our readers to use this research to help make more informed decisions in this dynamic marketplace.

Best Regards,

Andrew Rubinacci
Chair, Research and Education work stream
AH&LA's Consumer Innovation Forum
SVP, Distribution & Revenue Management
InterContinental Hotels Group

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COMING Q4

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COMING Q4

Demystifying the Digital Marketplace: Executive Summary

The digital marketplace has undergone a significant amount of change in the intervening years since *Distribution Channel Analysis: A Guide for Hotels* was published in 2012. Following a deep dive into the travel distribution landscape, three primary themes have emerged:

1. **Hotels are exploring new techniques for implementing revenue strategy. An abundance of new online models has driven an imperative for hotels to shift from traditional, analog operating methods to a focus on digital.**
   Current operating methods are costly and deployment is inefficient. This fact is evidenced by the rate of third-party commission growth rising at twice the rate of revenue growth. Hotels previously tried to be available "on every shelf" but most have realized at this point that (1) it costs too much to be prominent in every distribution channel and (2) the dominance of third party intermediaries in the consumer path can undermine the relationship between hotel and consumer. Hotels will always have the opportunity to build a relationship during the actual stay experience but risk losing out on the connection made through inspiration, information gathering and booking phases of the travel journey. Third party intermediaries are focused on developing their own customer bonds and have little incentive to facilitate the relationship between a hotel and their shared customer.

   Therefore, in spite of a mutual dependence between hotels and third parties, a sense of competition arises for "owning the customer relationship." Two critical components of revenue strategy involve **managing to a hotel's optimal channel mix,** including close tracking of acquisition costs, and **differentiating the guest experience** during the stay as well as in pre- to post- stay contact.

2. **The legacy OTA model is declining while apps and metasearch are gaining traction by providing consumers a more convenient and seamless experience across air, car, hotel and other components of travel.**
   The legacy OTA model once assisted consumers by narrowing down lists of hundreds of hotels while still offering a wide range of options. A number of new models point to a next generation consumer interface. With metasearch and social sites (like TripAdvisor and Facebook), along with some new apps (like Google Trips) now seamlessly integrating many elements of travel, the evolution toward a **curated consumer experience** is underway. In the meantime, some foundations of the traditional OTA model have been challenged. Through rigorous research on consumer clickstream data, the **"billboard effect" was dismissed as a dead concept.** The claim had been that OTAs drove multiple brand.com bookings for each one booked directly on the OTA site. However, a 2015 research study sponsored by the Consumer Innovation Forum (CIF), an American Hotel & Lodging Association committee focused on the education and research of the hospitality industry's digital and distribution space, proved there is barely any lift in brand.com bookings as a result of visits to traditional OTAs. Further, some conditions that locked up hotel inventory and rates for third parties such as rate parity and last room availability are dissolving, whether from European regulators in multiple countries or changes in large chain agreements, thereby paving the way for **greater autonomy by hotels and smaller third party distributors.** These changes will ultimately result in a more open and competitive marketplace.

3. **New entrants spell disruption for select customer segments.**
   There are a few key segments in which disruption is imminent. **Corporate travel** has long relied upon legacy travel management companies handling the larger managed travel accounts, in contrast to a high degree of fragmentation on the lightly managed and unmanaged business travel. New developments are likely to force change in the traditional RFP process for corporate accounts – such as rate scanning with auto-cancel and rebook capability up until day of arrival, reward and incentive programs for travelers to self-police their own spending, aggressive moves by third parties to aggregate the lightly managed accounts, along with consolidation by hotel chains who don't participate in annual rate bids. Corporate account activity will further be diverted by the aggregation of **home and vacation rental markets,** which will also create supply spikes during leisure high demand periods. The **groups and meetings** market is also ripe for disruption. The last five years have seen extensive offline third party intermediation, but no one has yet managed to aggregate this demand by offering a compelling online venue for casual or professional meeting planners to shop and book. Historically, the booking of groups and meetings has been inefficient and costly, but indications are that the next 3-5 years will bring new options for this segment which may finally streamline a highly inefficient process with reduced costs and an improved experience for the consumer.

These three themes, along with many more, will be explored throughout Parts 1–3 of this edition of *Demystifying the Digital Marketplace: Spotlight on the Hospitality Industry.*

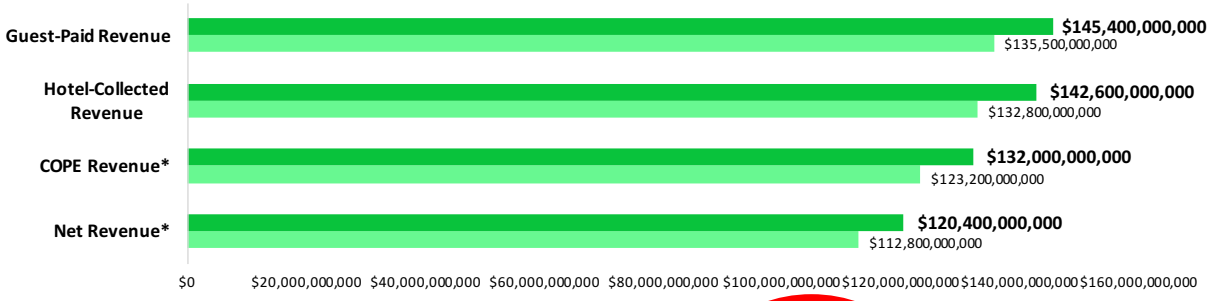
REPORT HIGHLIGHTS: PART 1

U.S. hotels paid approximately $25 billion in overall customer acquisition costs in 2015 on guest paid revenue of $145.4 billion. This guest paid revenue grew year over year, from $135.5 billion in 2014 to $145.4 billion in 2015. Despite this, the Revenue Capture figure for the industry in the U.S., the percentage of revenue retained by the hotels after paying all customer acquisition costs, declined by .4% over that same period. The Revenue Capture decline, from 83.2% in 2014 to 82.8% in 2015, represented almost $600 million in revenue that, if it had been retained, would have contributed directly to net operating income and the hotel's return on investment. Using an 8% capitalization rate, this additional cost of $600 million reduced the asset value of the overall hotel industry by at least $7.5 billion.

Revenue Capture for Total U.S. Market: 2015 vs. 2014

As Hotel Revenue Capture declines, Real Estate value erodes

Revenue Capture Loss (-0.4) = $572.8 m



	Net Revenue	Revenue Capture
2015	$120,400,000,000	82.8%
2014	$112,800,000,000	83.2%
Change	6.7%	-0.4%

*COPE: Contribution to Operating Profit and Expenses (revenue less commissions and transaction fees).

*Net Revenue removes commissions, transaction fees, and sales and marketing expenses.

1. ITS ALL ABOUT OPTIMAL CHANNEL MIX

Every single booking, no matter the source, comes with a price tag. A hotel will never get all of its bookings from a single channel and so hotels must work to identify and manage to an optimal channel mix. At the hotel level, managing costs is not simply about negotiating a better deal with a channel vendor such as an OTA. **It's about understanding (1) the profile of demand in a hotel's market and (2) the costs associated with getting that demand and then (3) proactively managing to a channel mix deemed optimal because it yields the highest net revenue and profit contribution.**

2. COMMISSION GROWTH IS RISING AT A FASTER RATE THAN REVENUE

A 2013 Kalibri Labs study in conjunction with the Hospitality Asset Managers Association (HAMA) indicated that commissions were rising at twice the rate of revenue growth from 2009 to 2012. The Kalibri Labs database of stay data from 25,000 hotels revisited this pattern and results indicate that **commissions paid to third parties are still rising at twice the rate of room revenue growth for the period from 2011 through 2015.**

3. TRIP PLANNING IS COMPLEX

The trip planning process is complex and most consumers stop at many sites on the sales path that ultimately leads to a hotel booking. Maintaining a presence in each site has a cost and tradeoffs must be made. **The days of being present "on every shelf" are over.** That approach may have worked in the early 2000s but not today. The costs have risen too high for any hotel to afford to do that. Understanding the consumer sales journey is key to making the best tradeoffs.

4. CONTENT IS KING

Compelling descriptions, photos/video, and strong value propositions are the ingredients that ring the cash register. The best content leads to higher conversions for any merchandiser of hotel rooms. Making sure this content is readily available and that a hotel chooses carefully when deciding **which content should be exposed for its own direct channels and for each of its merchandising partners can be the primary engine that shifts business from one channel to another.** Managing content carefully is crucial to achieving an optimal channel mix.

5. THE BILLBOARD EFFECT IS DEAD

A study conducted by AH&LA's Consumer Innovation Forum (CIF) examined consumer clickstream data from 2012 and 2014 and concluded that consumers used OTAs considerably more from 2012 to 2014, and when they visited OTAs they rarely returned to book at the hotel brand*. In fact, the likelihood of an OTA shopper returning to book at brand.com was only 7%. The concept promoted by the OTAs that was called the "billboard effect" claimed the visibility given to hotels by listing with OTAs resulted in many more bookings on brand.com as a result of a presence on the OTA. The 2015 study was conducted by systematically testing this theory using three different statistical models. The study indicates, unequivocally, this "billboard effect" does not exist and it appears that the multi-billion dollar marketing spend by the OTAs has benefited the OTAs at the direct expense of brand.com. This has not been particularly beneficial to consumers as rate parity has kept rates essentially the same on both, and third party bookings have been tainted by the many deceptive practices employed by some OTA affiliates.

**the study examined routine bookings, not those made when specific joint promotions between OTAs and hotel brands were in effect.*

6. LAST ROOM AVAILABILITY (LRA) AND RATE PARITY

The constraints in the market around last room availability (LRA) and rate parity have been in play over the last few years and have become much more flexible over the last two years. For a hotel, having flexibility in deciding the rates and inventory offered in each channel are key to achieving an optimal channel mix. These conditions can be important levers for a hotel to favor one channel over another in their quest to find the optimal blend and achieve the optimal profit contribution. **Changes made by major brands and by legislation in many European countries is driving the industry toward a more open model where hotels have more control over rates and inventory than they have had in many years.**

7. ONLINE TRAVEL AGENCY (OTA) CONSOLIDATION

The merger and acquisition activity in the last few years has lead to two primary players in the OTA space: Expedia and Priceline/Booking.com. Expedia has grown by acquiring many smaller OTAs and meta search sites and is exploring offering enterprise level technology to the large hotel chains. In addition to its own acquisition of other merchandising websites, Priceline is competing with traditional hotel brands by offering technology services to independent hotels such as property management, revenue management, and website development. Both have acquired vacation rental companies thereby supplementing their hotel room sales. **Both large OTA companies face significant threats by Google, TripAdvisor, and others with strong consumer adoption that offer better cross-travel search functionality.**

8. SEARCH, META SEARCH AND APPS: WHERE IS IT GOING?

By 2015, traditional search was fast evolving into meta search combined with instant booking. This will divert business from the traditional OTA models. Good examples are Google, TripAdvisor, and Kayak (now owned by Priceline). The future is in travel apps, not in traditional search, and Google's Destination app is an indication of what that may look like when a consumer can explore options for air, car, hotel, and other ground services. **This reality of metasearch growth is driving the OTAs to diversify and find other revenue sources knowing their legacy models will be eclipsed and that Google's dominant position in mobile devices may put them at a serious disadvantage.**

9. BOOK DIRECT CAMPAIGNS

Kalibri Labs' examination of stay data and costs from 25,000 hotels indicate that in 2011 there were 4.3 room nights booked directly for every one that came indirectly but by 2015 there were only 2.7 room nights booked directly for every one booked indirectly. A 40% drop in direct bookings from 2011 to 2015 along with the higher profitability of these direct bookings, 9% in room revenue when compared to OTA, are some of the primary reasons for a stepped up effort in the market for Book Direct campaigns. Major hotel chains are offering loyalty members compelling reasons to book on brand.com while smaller chains and independents are adding pricing widgets to their booking engines to give consumers price comparisons without having to leave their site to rate shop on a third party site.

10. CORPORATE TRAVEL: THE DAYS OF THE RFP ARE NUMBERED

There are two new business models emerging in the market that will be a "one-two" punch to the traditional RFP process for business travel. (1) Sites such as TripBam can scan prices constantly and cancel and rebook travelers when lower rates are posted. (2) Services are being offered to corporate accounts by companies like Rocketrip and TravelPerk that pay incentives to travelers for choosing lower cost travel options by sharing a portion of the cost savings with the traveler. **No need to lock in annual rates through a bidding process when a traveler can get the lowest rate available up to the day before arrival and when travelers "self-police" their travel by receiving incentives; these changes put into question the future role of Travel Management Companies (TMCs).**

11. AIRBNB AND THE SHARING ECONOMY

The Sharing Economy is adding accommodation supply to markets without any new hotel construction. There are regulatory and tax issues that need to be resolved so the home rental inventory is operating under the same rules as hotels. Beyond this hurdle, **hotels in some markets will be feeling the pressure of this added inventory which may reduce occupancy and challenge pricing power for some hotel products during high demand periods.**

Demystifying the Digital Marketplace: Overview

It was quite a year for the hotel industry in 2015, with rate parity outlawed in France and pending regulation in many other European countries. Acquisitions abound. Expedia gobbled up Travelocity, Orbitz, and HomeAway. Priceline is consolidating into a giant distribution platform targeting independent hotels that includes a property management system, revenue management tools, and online marketing services. Accor launched AccorHotels to offer those same independent hotels a distribution platform without requiring an affiliation to an Accor brand. Amadeus acquired Newmarket and is building a CRS to provide an end-to-end enterprise level distribution platform for hotel chains with an eye on replacing 40+ year old legacy reservation systems. Not to mention that Marriott spent much of the first half of 2016 pursuing the acquisition of Starwood!

The extensive list continues with the fact that many hotel chains have dropped last room availability restrictions with online travel agencies. Google and TripAdvisor have introduced Instant Book capabilities while Amazon, in a quick about-face after the April launch of their destination product, announced their departure from travel in October. Consumer deception in North America and Europe is rampant, diverting billions in revenue from travelers who thought they were booking directly with a hotel or on a brand channel.

The home/apartment rental business is booming. Airbnb receives all the press but Expedia's Homeaway and Priceline's Home Rental offerings are on par in scope, although with differing accommodation types, ranging from 800,000 to almost two million listings, not to mention TripAdvisor's FlipKey with another 300,000. There is undoubtedly overlap in inventory between these sites but the numbers are still significant. This is particularly true in primary gateway cities worldwide and the degree of displacement of hotel stays is still unknown. More detail can be found in the Airbnb and Short Term Rentals section.

Google has moved aggressively to monetize hotel search listings, to the point where it's largely a pay-for-position on page one. Google is now dominated by the OTAs who can often outbid any hotel or brand for top ranking.

A preview of a new research study by Dr. P.K. Kannan was released in late 2015 that proves that the so-called "billboard effect" (known as "free riding" in Europe) is officially dead. This study raises serious doubt about the prevailing conventional wisdom which says that simply by virtue of having a routine listing on an OTA site (i.e., excluding dedicated promotional campaigns), a hotel's own website will get a significant number of incremental direct bookings. Additional detail and a summary of this study is being published as part of this section of *Demystifying the Digital Marketplace*—Part 1 of 3—2016.

In the U.S., the Federal Trade Commission announced a series of warnings to consumers to beware of the "scams" that are rampant with online travel agents where the agent purports to be an official website or call center of the hotel but is not. This follows a series of stories in many major news outlets in the U.S. including ABC News Nightline, CBS News, NBC News, and the *New York Times* describing in detail how some third party sites deploy deceptive practices to mislead consumers.

Regulation and legislation are front and center activities in the digital landscape. While it may be new to the hotel industry, paying attention to government affairs with respect to technology appears to be gaining traction with hoteliers. The American Hotel & Lodging Association (AH&LA) in the U.S. has ramped up its efforts to support the imposition of needed regulation

on vacation rental sites around safety, security, and tax remittances to municipalities and states. The AH&LA has also sharpened its focus on consumer deception throughout the digital market. The European Commission (EC) is undertaking a deep multi-year review of all digital commercial platforms (not just in travel) to determine if the European Union economies would benefit from regulation. The EC is also taking on Google with an antitrust case against the technology giant. It's the "wild west" online and it may finally be time to rein in the cowboys.

Demand aggregation by third parties is a fact of life. The digital market is a dynamic place, and the winners have the best merchandising power driven by the best content leading to higher conversions. This effect in turn yields more bookings and more funds to maintain dominant market positions to attract more consumer demand. It's a high stakes game and third parties are gatekeepers that will control the consumer point of entry in the hotel shopping and buying experience.

Expedia and Priceline/Booking.com have spent the last 15 years building up an unmatched, global database of millions of accommodations. Growing rapidly during the post 9/11 recession and gaining significant traction in the 2009 recession, online travel agencies have become entrenched in every market as the primary brands for booking travel. OTAs managed to eclipse the traditional hotel brands (Stay Brands) with sheer market power by outspending any individual hotel chain by an order of magnitude on marketing. Despite an overwhelming market presence, the OTAs remain vulnerable. Google is offering Instant Booking on their own site, thereby diverting the transactions that would previously have gone to the OTAs. It is unclear if Google will reach a point where they determine they can make more money through direct bookings and forego the USD $3-$5B a year they receive from the OTAs in online advertising.

What does this mean for hotel owners and operators and how can they respond?

There are three major areas in which hoteliers can assert themselves to sustain healthy profits in this environment.

1. Content

In spite of the growing power of third party marketers over consumer demand, hotels still decide which rates and inventory to share. If the hotel industry is able, subject to applicable laws, to aggregate and normalize their content (hotel descriptions, rates, and inventory) and offer it to more new entrants to enable competition, hotels and consumers would both benefit from the creation of more options in the marketplace and a more efficient market.

Aggregation and normalization of content would also support the actions needed to help stop the deceptive behavior discussed above. Examples include when rogue third party sites use a URL or toll-free number to purport to be a hotel's official site or call center, or to offer wholesale rates on a retail site. Efforts to crack down on consumer deception need to be stepped up. Unified support by all hotels of the efforts of the AH&LA and EC is essential to put an end to these unacceptable practices.

2. Control of costs

The costs of customer acquisition continue to rise unabatedly ranging from a low of 15% to as high as 30% of guest paid revenue. Customer acquisition costs will continue to spiral out of control if left unchecked. Hoteliers must manage acquisition costs with a rigor similar to that with which they learned to manage labor costs. Third party commissions have often been viewed as a "cost of doing business," but so are labor and other operating costs. Few sit on their hands passively allowing those costs to mount while profits decline, but the same cannot be said of customer acquisition costs. Although profit margins are still healthy in many markets, there is a limit to the costs a hotel can absorb before it has to learn to contain them. Hotels must learn how to manage these costs before the economic up-cycle ends and revenue declines force a painful squeeze on profit.

Many hotels believe they cannot control consumers' choice of channels. However, hoteliers are not power-

less when it comes to third party dominance. They can create incentives and apply resources in a way that filters the business they receive. Hotels can selectively advantage certain channels and types of business. The days of "putting your hotel on every shelf" are over; no one can afford that anymore.

Hotels have to determine their optimal channel mix given their competitive position, the demand coming into their market, and the strength of their brand. Hotels then have to allocate the pool of customer acquisition funds to achieve that optimal mix; this includes everything from commissions and transaction fees to all sales and marketing costs. They have to hold themselves accountable to metrics that help them evaluate revenue performance net of acquisition costs.

3. Consumer experience

Consumers are drawn to and want to repeat great experiences. For example, Amazon makes it easy for consumers to shop, buy, and gather information. When Amazon introduced 1-click shopping and a recommendation engine to help buyers find their next book, consumers responded by making Amazon a retail powerhouse. In contrast, the hotel industry has not had a long history in differentiating the stay experience.

Hoteliers must carefully shape the experience consumers have in shopping, buying, and staying at their hotel. For the large chains, it can be done on a brand level. Independents can take a hard look at the unique nature of their hotel offering and ensure they are meeting the needs of each of their guests one at a time. Technology to enable personalization will be essential in the digital world and should be deployed by both chains and independents. No matter if created internally by a brand or provided by a third party, hoteliers must seek out any advantage at their disposal. New innovators like the CitizenM hotel brand provide a good example of how a limited service mid-priced hotel product can be differentiated from the pack and gain substantial repeat business because of the unique experience offered.

Improving the guest experience can sound cliché in the hotel world as it's been a refrain for over 20 years. However, there must be a serious focus going forward to avoid the homogenization that may occur if third party marketers, OTAs, or meta search channels continue to push the message that buying hotel rooms is solely about rate. The hotel experience, unlike many products sold digitally, is a deeply personal one and ripe for innovation. Those in the hotel industry that establish ways to differentiate both the purchase and the stay experience will be winners, in spite of the gatekeeper power asserted by third parties.

IMPORTANT THEMES FOR HOTELIERS

- Hoteliers must be mindful of the ratio between direct and indirect business. They must set objectives for this ratio and spend their customer acquisition funds in accordance with these goals. A focus on the cost of acquisition and solidifying the direct connection with the consumer has never been more critical.
- Low cost/high touch channels are clearly the most attractive. It is not merely a question of adding up costs of using one channel over another and putting more emphasis on the one with the lowest cost; it is just as much about the channels in which the customer relationship can be enhanced.
- The idea of lifetime value for a consumer base plays an important role in the economics of the digital marketplace. The acquisition costs have to be played out across multiple visits, knowing that consumers who have a closer connection to a hotel will ultimately incur less cost in their acquisition as they return, spend more on the room and other services, and ultimately yield a higher profit.
- There has been a prevailing belief in most hotel markets that lowering rates will stimulate more demand for hotel rooms. However, every study done on this topic, including the Price Elasticity study undertaken in the ***Distribution Channel Analysis*** study released in 2012, has proven this to be false[1]. Understanding the rates that consumers will pay in any given market is crucial to improving a hotel's net profit.

There have been immense changes in the digital marketplace in 2015 for the hotel industry and they show no signs of slowing. The large technology gatekeepers may hold some of the cards; but hotel brands, owners, and operators have a few cards of their own. Playing them right will give hoteliers the power to maintain sustainable profit.

NOTES

The Digital Landscape: Introduction

> "In 2015, Uber, the world's largest taxi company, owns no vehicles; Facebook, the world's most popular media owner, creates no content; Alibaba, the most valuable retailer, has no inventory; and Airbnb, the world's largest accommodation provider, owns no real estate[2]."
>
> Tom Goodwin, SVP of Strategy for Havas Media

A Techcrunch blog post talked about the "interface owners" who create a veneer of software that sits atop broad supply networks and diverts customer relationships. The suppliers bear all the costs and the consumer-facing vendors reap most of the benefits. In the old days, the supplier held up both sides of the model (production and relationship with the customer) and could make enough profit to sustain production costs. Again and again, this model appears to be breaking down. One need look no further than newspapers, music, television networks, and taxi services, among other examples, to see that the creator of the product or service no longer owns the primary customer relationship. This shift makes traditional economic models no longer sustainable. There is greater perceived value in that thin veneer of software connecting the consumer to the product than there is in the downstream product that is ultimately consumed. This realization, particularly in the hotel industry, is what has led to the rapidly increasing trend of intermediation.

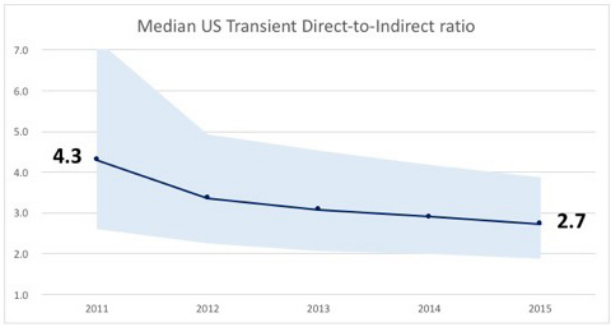
HOW DOES THIS PLAY OUT FOR HOTELS?

Large technology companies have become the primary point of entry for consumers booking travel [refer to Booking Brand graphic at right]. In many cases, Expedia and other Online Travel Agents (OTAs) for example, built themselves on the back of this change while for others, like Google, entry into this market came later. These "Booking Brands" are aggregating hotel demand in all major markets, causing the traditional hotel brand companies, the "Stay Brands," to pay much more for access to the same customers that came to them directly in the past. As recently as 15 years ago, the costs a hotel might expect to pay to acquire a guest were around 5-10%. Due to this trend of intermediation and increased competition for the guest relationship, these costs are now 15-25% and rising.

Booking Brands Now Dominate Consumer Point of Entry

One way to measure the impact of growing intermediation is to look at the ratio of rooms booked directly with a hotel, through Brand.com or other hotel owned channels, to rooms booked through a third party such an OTA, GDS, traditional travel agent, or wholesaler. In 2011 this figure was at a high of 4.3 direct bookings for every 1 indirect booking. For the year 2015 this figure has decreased to 2.7 direct bookings for everyone 1 indirect. These figures represent the entire U.S. market for hotels with an ADR above $100.

Direct-to-Indirect Channel Share Ratio
Total US - 2011-2015



Note: direct is brand.com, voice and property direct; indirect is OTA, GDS and FIT Wholesale
U.S. Hotels over $100 rate

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As a result of the abundance of information available to hotel shoppers now, the actual hotel selection occurs deeper in the sales process than it once did. Hotel shoppers now utilize tools like online travel agencies, Google, and Trip Advisor to narrow down to a shorter list of potential properties. By the time the consumer actually decides to make a hotel purchase, they will likely have touched 7-10 sites[3]. The rankings or prominence of any given hotel on these sites will have a large impact on the user's eventual booking.

COMMISSION COSTS HAVE CONTINUED TO RISE AT TWO TIMES THE RATE OF REVENUE GROWTH THROUGH 2015.

MANAGING ACQUISITION COSTS—THE MARKETPLACE

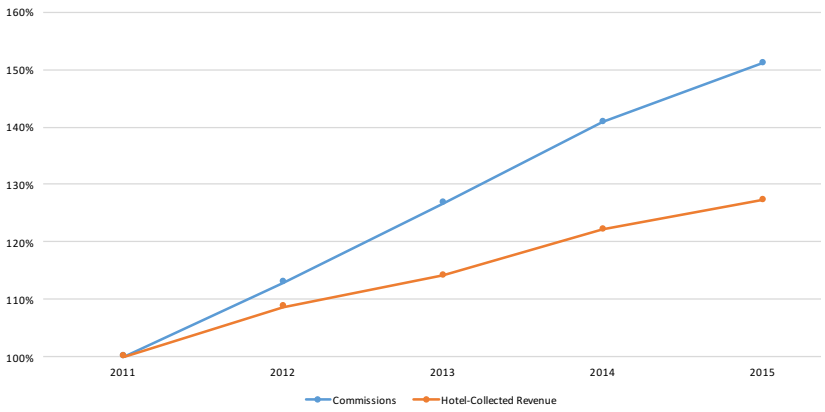
This bifurcation of distribution into "Booking Brands" and "Stay Brands" has been a primary driving force behind the escalation of customer acquisition costs in the hospitality industry. This affects hotel operators along with corporate and regional teams, all of whom must now navigate the increasingly complex digital marketplace. This environment calls for an imperative to modify the evaluation of revenue performance. Whereas once the traditional methods of tracking top line revenue and market share were sufficient, now managing gross margins and revenue after cost of sale may prove to be more insightful and beneficial in an ever-changing and increasingly turbulent online arena.

What does this mean for hotels going forward? There is a clear danger of losing direct customer contact along the consumer path when much of the contact is ceded to third party aggregators, leading to a commoditization of hotel brands. This would relegate hotel operators and brands to passive recipients of business from the third parties, for which they would pay for access to the aggregated demand, before paying yet again to compete with one another on the actual stay experience.

The first industry study examining customer acquisition costs was completed in 2014 by Kalibri Labs for the Hospitality Asset Managers Association (HAMA). HAMA provided data from almost 500 member hotels for the period from 2009 to 2012 and found that commission costs for the hotels were rising at two times the rate of revenue growth.

When this study was expanded to the entire U.S. with data from over 25,000 hotels and updated in early 2016, it became clear that this trend has continued unabated. Commission costs have continued to rise at two times the rate of revenue growth through 2015.

Commissions Rising at 2x rate of Room Revenue Growth
Total U.S. 2011-2015



With this updated data set it appears that a range of roughly 15-25% of guest-paid room revenue is what hotels are paying for customer acquisition. It is clear that these costs are high, particularly when compared to other segments of the travel industry, but there is yet significant opportunity for hotels. Governing acquisition costs and learning to manage business by channel by taking advantage of the wide variety of demand drivers available will be critical to maintaining profitability.

More details on costs of customer acquisition will be documented later in the chapter on Distribution Costs and Benefits and in the chapter on Managing to the Optimal Channel Mix.

UNDERSTANDING HOTEL DISTRIBUTION CHANNELS AND THE BASIS FOR THEIR COSTS

The demand for rooms in most hotels can be broken down into "market segments," representing common customer types typically defined by "trip purpose." Customer types include individual business, individual leisure, weekend getaway, company meeting, social group, and convention. On top of these segments there is the "source of business," or where the customer actually booked. Sources of business include brick and mortar travel agents, online travel agents, Brand.com, and Property Direct. Additionally, channels represent the 'plumbing' through which the booking occurred.

Hotel distribution channels are the conduits through which reservations pass to reach a hotel and are used to maintain availability, rates, and information. Many reservations pass through a source of business as well as a channel. There may be costs associated with the source, most frequently a commission, as well as costs from the channel that often carry technical, marketing, and commission costs. These costs are incurred in the course of shopping for a hotel and making the booking before the guest ever steps into the lobby of the hotel. Historically, costs to utilize these channels were strictly viewed as operational and technical. The costs were mainly associated with GDS plumbing and transaction fees. Now, because so many of these channels are accessible to the public, distribution is as much about marketing communications as it is about technical reservation delivery, and the costs now reflect both components. There are five primary distribution channels, each of which have multiple sub-channels:

1. Voice or call center/800 number
2. Global Distribution System (GDS)
3. Brand.com or the hotel's own website
4. Online travel agency (OTA)
5. Property direct/other

As a hotel works to maximize both its occupancy and rates, it must tap into a combination of many different segments coming to the hotel through many different channels. The technical complexity of the hotel distribution landscape is derived from the difficulty in maintaining rates and availability in a timely manner to hundreds of channels. Understanding the route each customer takes to select a hotel and make a booking is imperative so that the plumbing behind the booking is executed properly.

In order to support the growing volume of online hotel bookings, the underlying technology needed is extensive and ensuring connectivity between every piece of the hotel booking puzzle is just as important as the functionality of each individual piece.

STEPS ALONG THE BOOKING PATH

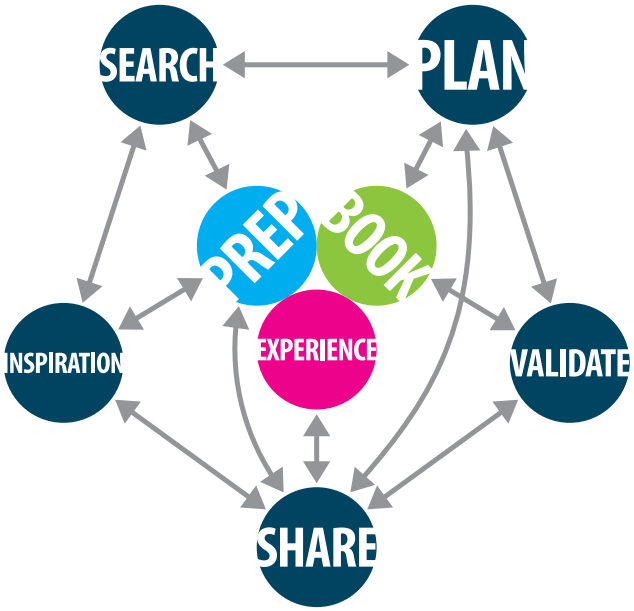
Aside from the technical considerations behind hotel inventory distribution, there is the guest's shopping journey. Hotels must focus their primary effort on where travel shoppers go. As travelers shop for a hotel, be it for business or personal travel, they go from the point where a trip is under consideration all the way through to a post-travel dialogue with friends, family, colleagues, or online review sites.

Ideally, a hotel would put forth content or offer assistance at each point a traveler passes throughout the process; serving up the needed information at the time and place a travel shopper needs it to facilitate a better outcome. As this process has migrated online, it has become possible for a hotel to participate at many of the stops along the shopping path. This further extends to the post-trip dialogue and reviews.

Hotels can generate significant value for themselves by engaging with travelers at all points along the shopping and booking journey. The concept of a "conver-

sation economy" has arisen because the dialogue related to a travel purchase involves many interactions between consumers that have now become visible online. This is particularly true in the hugely popular social media worlds of consumer review sites, Facebook, and YouTube, among others. Following the traveler as they gather information, share experiences, and discuss their trip is all fair game for marketers.

Travel Purchase Process



Besides addressing the millions of consumers shopping and booking directly, most hotels also want to be linked to the Global Distribution Systems (GDSs) so that their rooms will be available for sale to the estimated 165,000 travel agents using them. The main GDSs are Sabre, Amadeus, and Travelport (combining the original GDS's Galileo and Worldspan). In order to reach these millions of consumers, hotels also want to have their rooms and hotel information available on the hundreds of sites where individual travelers, travel agents (to supplement their use of GDSs), business travelers, meeting planners, and virtually anyone shopping for a hotel room can find them.

The Siloed Organization Has Inherent Limitations

The organizations in hotels, as well as in regional and corporate settings, have traditionally been siloed. Depending on the type of hotel, siloes have come about due to specialization or a resource constraint. Traditionally, revenue managers work on price optimization and inventory controls while directors of sales and marketing work on direct sales accounts like corporate or groups/meetings and participate in promotional activities. Digital marketers manage email campaigns and online advertising and have varied degrees of control on the hotel's website. (Branded hotels often delegate website control to corporate teams while small chains and independents control their own).

The increasingly complex hotel distribution marketplace calls for a focus on managing to an optimal channel mix that would function more seamlessly when these functions are integrated. A siloed team will have more issues calibrating a series of rates, selectively choosing specific customer profiles, activating targeted campaigns, creating favorable bias for a hotel's website, and limiting inventory in expensive third party channels than would an integrated, holistic operation. Many brands are moving to a regional model to integrate and monitor closely these activities and their results to achieve better outcomes. Small chains and independents are improving their coordination and management companies are increasingly focused on essential digital and distribution skill sets. The digital hotel distribution market is exceedingly complex and hotels must learn not to only flip a switch on third party and direct opportunities, but also to utilize a truly deep understanding of the various channels and sources available to them to achieve a hotel's optimal profit contribution.

Considerations in Choosing and Managing Channel Partners

In addition to enabling the basic technical connectivity to third parties, hotels will want to be sure they appear in a consumer's consideration set as a booking decision is made. This decision occurs both in third party channels as well as direct booking channels such as Brand.com and call centers. The complex web of marketing and merchandising present in all channels today requires a holistic management of a given hotel's presence in each channel. This includes:

1. Managing connectivity to all relevant channels
2. Media placement to increase a hotel's prominence in search at appropriate need times
3. Managing customer engagement to build or expand on a relationship, whether the consumer interaction is through a direct or indirect (third party) channel

These functions will vary as a hotel considers each potential channel with which it participates. There are costs and conditions around each channel that will affect the value proposition of these actions, making them easier or more prohibitively expensive. Most hotels do not have experts on staff with an understanding of the nuances of working with each potential channel

partner. Branded hotels may rely on regional or corporate guidance, but there may often be local channel opportunities that are not well known at the brand's HQ. Channel partners often offer guidance specific to their channel, but at the end of the day are concerned with their own revenues and objectives as opposed to maximizing the hotel's net revenue.

Social Media Sites

The widespread use of social media continues to engender significant change in the way travel is shopped and booked. When social sites emerged, they were support players in the process. This was much the same with search engines; they were a brief stop along the way that led to the "real" information gathering which occurred at online travel agencies (OTAs) and hotel supplier websites. Social sites have become highly influential in the shopping and booking process as they carry dialogue from qualified past users as well as trusted family and friends.

Direct Booking on Search, Metasearch, and Social

Search engines are beginning to provide a variety of booking options for consumers. This includes referral bookings where a consumer is presented with a link directly in their search that will take them to a hotel site or to an OTA to book. Additionally, search engines are increasingly implementing Instant Booking options where they have a direct connect with the hotel supplier and can facilitate the booking themselves without the consumer ever leaving the search environment. More content is being served up earlier in the shopping process, potentially bypassing multiple visits to OTAs or hotel websites. The use of social and search engine sites has become predominant; one or both have become the most popular stops in the consumer clickstream prior to booking a hotel stay. As content increases on third party sites, the time spent on those sites will likely far surpass consumer time spent on a hotel brand's website.

The OTAs served initially as a kind of search engine for travel. It's become clear with the advent of instant booking options that the lead players in travel-specific search, Google, Kayak (owned by Priceline) and Trip Advisor are taking a proactive approach to owning the hotel booking itself. They not only want to shorten the distance between the initial information gathering and the ultimate consummation of the booking, but they are offering Instant Booking to deliver the customer to the hotel without bothering to go through another aggregator such as an OTA. The search and social engines are working to reduce the number of shopping stops and become the one stop for the travel consumer.

What are the Relevant Channels for Any Hotel?

In the early 2000s it was in a hotel's interest to have rooms available for sale "on every shelf" to ensure consideration for booking. This trend carried through roughly the first ten years in growth of the initial large scale third party booking sites. Looking out from 2016 forward, it appears there are so many channels and additional costs involved in merely being visible on a site that hotels now have to make serious tradeoff decisions about which sites are the best fit for the profile of their customer base. Hotels most definitely can no longer afford to be on every shelf and must selectively limit their presence to the sites attracting consumers who are most likely to convert, and who will also yield the highest net revenue.

Everything Comes with a Price Tag

As discussed previously, the challenge of ensuring up to date, fresh and appropriate rates, availability, inventory, and content is a costly challenge with many considerations. Given the current dynamic with a huge variety of players vying to be the guide of choice for the consumer, it begs the question of where a hotel should invest its time, energy, and money to get the most bang for its buck.

Attracting business to any single hotel in a place where tens of thousands are visible is one of the most challenging jobs for the hospitality revenue strategist. It is not just about making the available information accurate and timely, but it has to be equally compelling and relevant. As third party sites improve their personalization (think Amazon's recommendation engine as a model), hotel management has to realize that they are competing head to head with tech giants with deep pockets to invest in this type of customization.

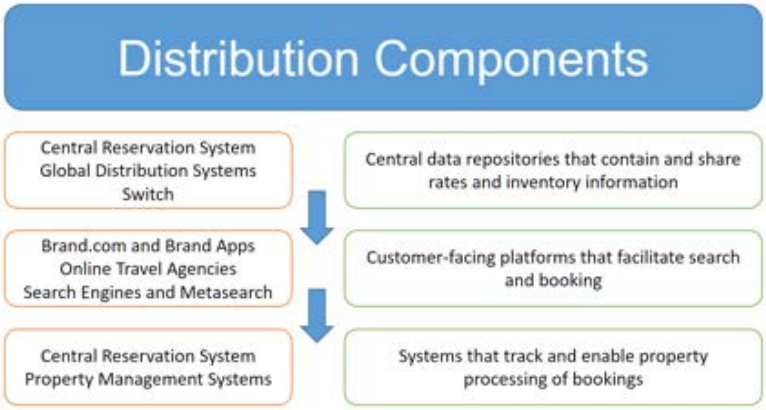
Of course, all of this effort comes with a price tag. There is a price for a hotel to maintain a presence in every search engine, every social media site, every OTA, every GDS, trip inspiration site, directory, and destination website. That's not to mention the cost to maintain its most important channel, its own robust website/app and/or its presence in a brand's (or other affiliation's) website/app. Some of the costs are direct transaction-based fees, some are commissions, some are media-based cost per impression or cost per click, and some are just the labor or production costs to maintain high quality content.

The consumer passes through so many websites and promotional messages on the way to a booking, it is paramount for a hotel to determine which of those stops moves the needle in generating business and

driving profit. Each hotel will have its own combination of touch points that its consumers are most likely to have contact with and that will influence the booking outcome. It is too costly to play fully in every major site or ad opportunity. Therefore, a hotel has to perform an analysis of the costs of each and the benefits of each to figure out the mix that will deliver the best results.

Refer to the Online Travel Shopper's Journey for a recap of an industry study conducted by AH&LA's Consumer Innovation Forum examining the consumer's online sales path. This includes a discussion about methods to allocate credit for bookings to various channels that were visited on the consumer's shopping path.

While simplistic in concept, the execution of distribution within the hotel industry infrastructure is fragmented and problematic. (See graph below).



There are many legacy systems that challenge the ability to connect and update in a timely manner, further complicating a hotel's decision-making process on where to participate.

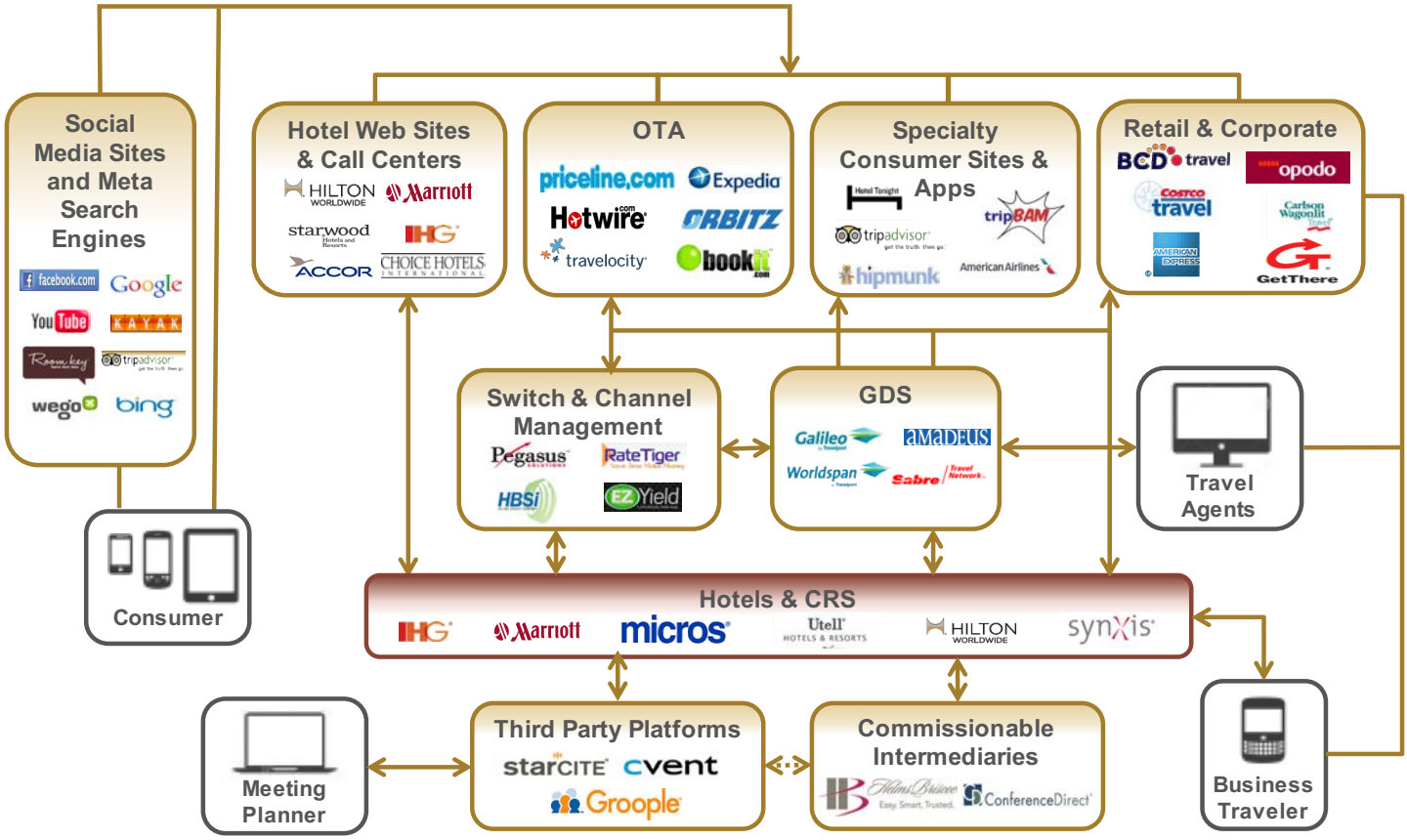
ALTHOUGH A REVENUE STRATEGIST MAY NOT CHANGE A CONSUMER'S PREFERRED CHANNEL, A HOTEL CAN INFLUENCE WHICH CHANNELS PRODUCE BUSINESS BY MAKING A CHANNEL MORE ATTRACTIVE THROUGH COMPELLING CONTENT.

For a hotel, the basic requirement of ensuring inventory availability is still the first step in maintaining visibility across the hundreds of sites their potential guests look at. Past this, managing distribution has made a definitive move into the integration and distribution of a brand image and promotional messaging.

This seriously challenges traditional thinking in the hotel industry. It used to be that revenue managers and directors of sales and marketing felt they could only take a passive approach. It appeared that consumers had particular channels they liked to use and all a hotel could do is react to the demand coming to it.

Today, progressive revenue strategists have to take a proactive stance. When a hotel is trying to improve its net revenue and reduce its cost of acquisition, it has to invest in initiatives to shift to a more profitable channel mix. The revenue strategist can look at all the demand drivers in a market, decide which ones are the best for their hotel, and then plan how much to spend by channel in order to achieve the targeted optimal channel mix. Although a revenue strategist may not change a consumer's preferred channel, a hotel can influence which channels produce business by making a channel more attractive through compelling content. Likewise, they can reduce production in a channel by limiting content. This can mean a narrower range of rates or fewer paid placements.

The Complex Hospitality Reservation Network



As discussed previously, the technology behind hotel distribution is fragmented and fraught with challenging legacy systems which makes managing content and inventory, then distributing it, a challenge with significant expense. The following are systems that need to be considered in the distribution platform for a hotel:

- Central reservation system (CRS)
- Property management system (PMS)
- Connectivity to GDS, OTA, search engine (via switch, extranet or direct)
- Channel management
- Branded website for hotel
- Revenue management tools (RMS)
- Content management system (CMS)

The four main categories of information that need to be distributed are:

- Hotel rates (frequently changing--dynamic)
- Hotel availability (frequently changing--dynamic)
- Hotel information such as room types, package types, amenities, location, contact information, meeting space (infrequently changing--static)
- Rich content such as photos and video (some dynamic and some static), which is a category that is growing in importance

At one time, it was necessary to have a central reservation system in order to connect to one of the major connectivity hubs such as a GDS or a switch like DHISCO (previously Pegasus), HBSi, or Derbysoft. Channel managers have been developed that will allow an individual hotel to connect to one database with a front-end search engine that can be plugged into many different sites.

Now that metasearch engines such as Google and TripAdvisor are offering Instant Booking, hotels can give these sites access, directly or through a partner, to inventory allowing guests to book direct inventory on the third party site. Hotels not able to maintain a direct connection can allow a referral site to handle the transaction on their behalf and will pay a commission in the retail business model.

The two primary types of connections between distribution partners are from a hotel's CRS to GDS and to OTA; while most use an industry switch/channel partner for this link (such as DHISCO, HBSi, or Derbysoft). Some include a channel management tool to permit a hotel to update in one place for multiple connections to smaller third party vendors. The switches use their extensive databases to populate many websites, and they relay reservations and their related changes from GDS and internet sites back to the hotel central reservation system (CRS) so that the hotels can service the business.

Most hotels and chains use the DHISCO (Pegasus) switch at a minimum to connect to the GDSs but the largest international chains maintain direct automated connections to a few of their larger GDS and OTA suppliers. Some individual hotels have direct relationships with OTAs by using connections with some manual intervention like an extranet or, surprisingly, there is still some widespread use of email or fax. Some OTAs, like Expedia, also store rates and inventory and then send a message to the hotel CRS for booking only. Many small hotel groups or independents use a third party reservation company like iHotelier, Synxis, or Micros/Oracle to provide most connections. They may still maintain a few extranets to OTAs for which the updating is often streamlined by the use of a channel management tool, often incorporated into the reservation system.

The distribution landscape is complex with a wide variety of players, many of whom are related. The chart on the next page illustrates most of the major distribution companies and their subsidiaries. The following is an outline of some of the major players in the distribution ecosystem.

MAJOR TRAVEL INDUSTRY DISTRIBUTION COMPANIES AND MARKET VALUE APRIL 7, 2016

(with major brands and subsidiaries named)

	EXPEDIA, INC.	TRAVELPORT	AMADEUS	SABRE HOLDINGS	PRICELINE	TRIPADVISOR
Market Value	EXPE: $15.62B/PE: 18.20	TVPT: $1.69B/ PE: 105.32	AMADY: $18.65B/ PE: 24.01	SABR:$7.96B/PE: 14.80	PCLN: $63.34B/PE: 25.81	TRIP: $9.20B/PE: 46.58
Brands & Subsidiaries	Expedia	Galileo (GDS)	Amadeus (GDS)	Sabre Travel Network (GDS)	Priceline.com	Tripadvisor.com
	Travelocity	Worldspan (GDS)	Hotel and airline distribution system (GDS/CRS)	Abacus International (GDS in Asia-Pacific Region)	Booking.com	Jetsetter
	Orbitz		Amadeus Altéa Customer Management System (airlines)	Sabre Hospitality Solutions (includes distribution, operations, and marketing solutions)	Agoda.com (Asia-based online hotel retailer)	Holidaylettings.co.uk (UK's largest independent vacation rental site)
	Hotels.com		Altéa: • Altéa Reservation • Altéa Inventory • Altéa Departure Control • Altéa E-commerce	Synxis (CRS)	Kayak	Other acquisitions: • Smarter Travel Media • Holiday Watchdog • Virtualtourist • Flipkey.com • Where I've Been • Wanderfly • GateGuru • Viator • La Fourchette • Lens • BestTables • Dimmi
	Hotwire.com		Newmarket	RezTrack (digital marketing)	OpenTable	
	Trivago			Sabre Traveler Security (locate travelers and contact info)	Rentalcars.com	
	Egencia (formerly Expedia Corporate Travel)			Sabre Travel Marketplace	Corporate-flights.com	
	Venere.com			GetThere (booking for business travels and meetings)		
	Expedia Local Expert			Sabre Airline Solutions		
	Classic Vacations					
	Expedia CruiseShipCenters					

This chart illustrates some of the major distribution companies and their subsidiaries.

NOTES

The Digital Landscape: Hot Trends

The current distribution landscape is being shaped by several hot areas of growth: online advertising platforms, mobile, loyalty programs as well as social and peer-to-peer business in particular. The growth of these platforms is adding significant complexity and depth to a part of the hotel business that, until the past 10 to 15 years, was more straightforward. Not only has this complexity greatly increased, but the rapid pace of change over the past several years has further complicated the customer acquisition process thus challenging profitability and the ability of hotels to maintain direct customer relationships.

As discussed, search engines and social media sites are increasingly integrating booking platforms leading to a hybrid search-social-booking model. Examples of this include TripAdvisor's recently launched Instant Booking and Google's Direct Book offering. These models are being further validated by agreements signed with large hotel companies. Additionally, the growth of mobile and the rapid ascent of peer-to-peer travel services further influences the market.

Each year, more travelers are using smart phones and tablets for hotel shopping and booking. Criteo reports[4] that 30% of hotel bookings in the United States came from mobile (smartphone and tablet) in the first half of 2015. The increasing ubiquity of the mobile platform for travel booking has solidified the need for a coherent mobile strategy on the part of hoteliers.

SEARCH ENGINES

Search engines have been a key point of entry into travel shopping for some time now and have only continued to solidify that position. Sixty-one percent (61%) of people turn to search engines from the beginning of their planning process to gain travel inspiration.[5]

While search engine algorithms change frequently, the quality of the site content drives traffic and ultimately bookings. With organic search subordinated to pay-for-placement, the landscape has become highly competitive for pay-per-click and other forms of advertising.

At the end of 2015, all content visible "above the fold" in a Google search represents some form of paid media or placement. Considering the over $4 billion[6] in online marketing spent by the two major OTAs, the competitive nature of the auction model leaves little room for hotel companies, especially small brands or independents, to effectively bid for commonly used search terms. Further, the relaxed posture by search engines in allowing OTAs to bid on trademarked names of hotels or brands pushes the costs to prohibitive levels for positions of prominence in a search engine listing, such as Google's Hotel Finder that offers only a short list of options for booking.

DISPLAY ADVERTISING

Not only are paid advertisements showing up on search pages, but these ads are also now trailing consumers around the web. Display Advertising is a form of digital advertising that targets potential customers with perceived interests in the product category or other identifying characteristics. For years, retailers have been doing this type of advertising by tactically selecting which cable channels or time of the day they should air their advertisement in order to gain access to a niche of their potential consumers. Display advertising is essentially doing the same thing in the digital world and across the web.

Google's Display Network is just one example of this type of advertising where Google's technology is used to place ads on websites relevant to what they're selling and to users whose search trends indicate they are interested as well.

Adara is another online ad specialist that uses similar retargeting technology,[7] which allows a company to post advertisements that, through cookie technology, follow online shoppers when they visit other sites (travel or otherwise) with ads in sponsored locations on the screen to encourage them to return to the original hotel website to book.

Another similar retargeting provider, though in this case focused on the travel industry, is Sojern. They utilize their own traveler database in combination with information from participating hotel websites to guide their advertising placements.

HYBRID MODELS: METASEARCH AND BOOKING

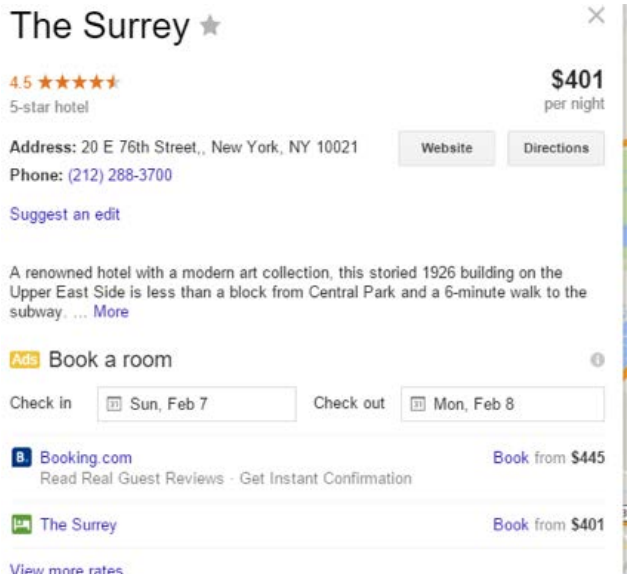
The rapid ascent of metasearch sites in the past five years has now given way to a shift in the traditional metasearch business model. Many of these sites are working to incorporate direct booking options and to operate similarly to traditional OTAs with more extensive search functions.

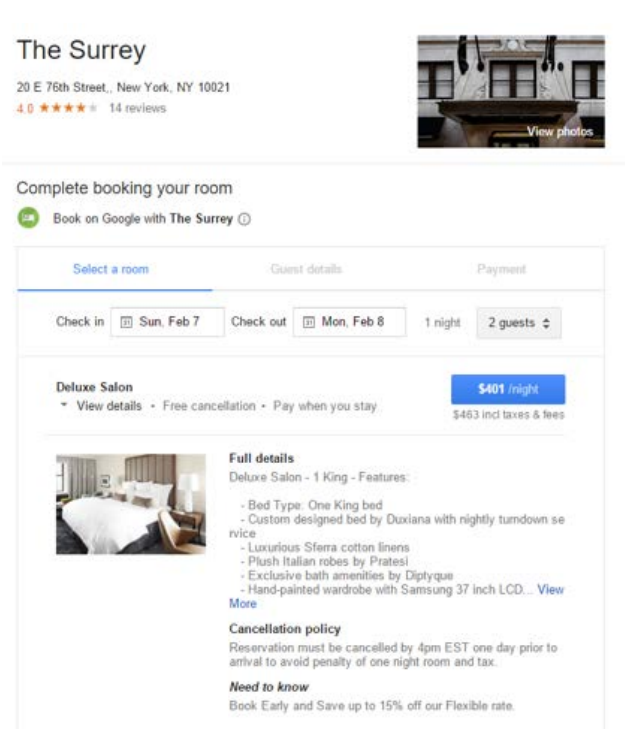
Google

Google first entered the travel industry as a powerful advertising tool, then as a hotel metasearch option in 2012, and now it is offering a booking engine. Google Hotel Finder allows guests to book directly on Google. Google's system is working to expand its direct booking hotel offerings and is expanding its booking capabilities.[8]

Google began rolling out its Book on Google hotel booking initiative in 2015 which, instead of referring users to a third-party site to complete their booking, allows users to complete their booking directly through a Google service. Book on Google sources inventory through direct connect partners and through Sabre. Hotels have the option to offer inventory through this program by paying Google a commission instead of a cost per click.

Google handles the payment processing when paying in advance, in contrast to TripAdvisor's Instant Booking where the hotel actually processes the credit card. Book on Google also supports a more traditional retail model where the guest pays at the hotel and the hotel later pays Google a commission. This is a step in the direction of Google acting more like a traditional OTA than as an advertising platform.





TripAdvisor Instant Booking

TripAdvisor transitioned from a travel review site to a booking engine when it introduced TripConnect. In addition to its base service of showing guest reviews, TripAdvisor also functions as a metasearch engine and now as a direct booking site through its Instant Booking product. With the introduction of TripAdvisor Instant Booking, the review site can now offer hotel inventory and process guest bookings directly. They have signed deals with quite a few hotel companies and are self-described as a site to help hotels receive more "direct" bookings.

The model TripAdvisor has adopted for this product is slightly different than that of other similar providers. The actual transaction occurs on the hotel side. That means the hotel partner actually charges the credit card and sends confirmation emails, etc. TripAdvisor shares all guest information with the hotel as well. Taken together this model allows the hotel to own as much of the guest relationship as possible, given that the booking is coming from a third party.

TripAdvisor allows multiple partners (hotel brands, OTAs, etc.), to fulfill the Book Now option. The one selected to fulfill it each time a guest books is based on an algorithm that takes into account conversion rate and other details.

SOCIAL MEDIA AND REVIEW SITES

Travelers have always taken advice from trusted friends and family for trip planning, but now social media is making that even easier to obtain and expanding the circle of trust. In fact, 83% of people use social networking, photo sharing, or video sites for travel inspiration.[9]

Facebook

Previously not on the radar screen for travel, developers have built apps for the popular Facebook site that allow users to share places they have been, content from visits, and all the commentary they care to write. Hotels have become actively engaged in setting up fan pages and many have added Book Now buttons to drive direct business to their websites.

Facebook, the leading social-networking site, now has 1.44 billion active users with 82% outside the United States. It also has 65% of users logging on in any given day, a staggeringly high site usage rate, each with 130 friends on average and spending roughly 21 minutes per day on the site. Various review sites, that also contain a social component, have begun implementing booking platforms. This includes both TripAdvisor and Yelp.

In 2013, Facebook launched a new product called "graph search." This allows Facebook users to complete a search of Facebook friends for any connections between people, places, interests, and photos. In the travel world, this tool allows users to search for places to visit, restaurants, and hotels based on the anecdotes and pictures friends in their social network have posted. Probably the most significant effect of this tool is its ability to display the millions of photos users have posted onto Facebook. Instead of viewing staged pictures from advertisements, potential guests have access to real photos taken by people they know.[10] While the travel team created a metasearch tool called Nearby, tapping the social graph search functionality, the real focus for Facebook is not about booking hotels but rather building out a better advertising platform. Facebook is where the consumers are getting travel inspiration. If it resides on the sales path for a booking, Facebook would like to take part of Google's advertising market share in the travel industry for itself.

MOBILE AND WEARABLES

A discussion of online hotel distribution is not complete without a significant reference to the importance of mobile. According to Pew Research, in 2015 two-thirds of all Americans now use smart phones, and for many, it is their key entry point into the online world.[11] It is no surprise that this single technology category has become one of the main ways travelers search for and book trips.

In 2014, a comScore study found that 52 million people, about 40% of U.S. travelers, used their mobile devices solely to view and access digital travel content.[12] According to Euromarketer, by 2017 about 30% of all travel bookings will be made by a mobile device.[13] Emarketer, a statistics aggregator and media industry observer, predicts that "travelers using mobile to plan trips are expected to increase by 20% by 2018, meaning that around 72.8 million people will be using their mobile devices to view digital travel content."[14]

While significant advancements in mobile have been made, in terms of popularity, hotel companies are not currently mobile innovators. While many major chains are actively developing mobile apps, only 45% of all hotel companies offer mobile bookings[15] and of the top 25 most popular travel apps in 2015, 8 are OTAs (with Airbnb and Booking.com leading the way), and none are hotel companies.[16]

In order to try to solve this problem, major hotel companies are investing significant sums of money to upgrade and differentiate their mobile sites. Given their

domain over the physical plant of a hotel, the brand companies have the opportunity to take the lead with growing 'key-less' technology capabilities and other on-property offerings. Starwood and Hilton have taken the lead in creating technology to allow guests to skip the front desk and unlock guest room doors using Bluetooth technology.[17]

Recognizing the need for investment in this channel, Hilton announced last year that they are going to invest $500 million dollars into their app which allows guests to book rooms, check-in, and unlock guest room doors all from their mobile device.[18] By 2016, Hilton is planning on having 11 brands that have keyless doors as a standard.[19] Other major hotel companies, such as Marriott, IHG, and Hyatt have created apps that truncate the traditional check-in process and are also in initial stages of integrating a keyless check-in.

Another major challenge that comes with mobile search and bookings is keeping guest information and preferences consistent between devices. According to a 2014 Google Travel Study, 71% of leisure travelers switch between devices to research or book hotel rooms.[20] Companies must create integrated digital content that is accessible simultaneously through all of the devices travelers are now using.

Wearable Technology and Hotel Bookings

The newest device trend being used by travelers is wearable technology. Fifty-three percent of millennials and 54% of early adopters are excited about the future of wearable technology according to Hotel News Resource. Wearable technology that is currently on the market includes the Sony SmartWatch, Samsung Galaxy Gear, and Apple Watch as well as fitness related devices such as Fitbit and Jawbone. Trip planning sites, OTAs, and major hotel brands have all joined the wearable technology space by creating apps in preparation for growth in this area.

Dara Khosrowshahi, CEO, Expedia Inc. on this topic: "We build the technology so that those same notifications can easily go to a Google Glass or someone's watch. With the proliferation of devices coming out, you have to build your technology with very flexible architecture, so that notifications can be sent to basically any device."

IHG has introduced an RFID Wristband system at their EVEN Hotels. Guests can check in and make purchases at the hotel's market and bar with their reusable waterproof Smart Band.[21] Similarly, Disney recently introduced MagicBands and MyMagic+ system. MyMagic+ enables users to plan their entire trips, including booking transportation to the hotel, and finding restaurants to eat. The MagicBands act as room keys and ticket for attractions in Disney theme parks. To enjoy these benefits, guests have to book directly through Disney and not third-party websites. These MagicBands record users' real-time location and can help Disney to send push notifications to its users and aggregate user data for future forecast and marketing purposes.

Similar examples can be seen in the airline industry. TripCase is a travel app that allows users to get updated flight information and check in for their flights. It supports most smartwatches and has dedicated apps for Apple Watch, Android Wear smartwatches, and Samsung's smartwatches. Airline companies have also incorporated wearable technology on staff members in daily operations. For instance, concierge staff in Virgin Atlantic's Upper Class Wing used Google Glass and other wearable devices to assess potential customer service improvements. The airline also partnered with Sony to bring their smartwatch technology to airline staff members.[22]

Travel companies have embraced this new trend of wearable technology to keep up with their competitors. This is particularly true of the historically more conservative hotel brands. Many companies have already shown significant progress in the wearable technology space:

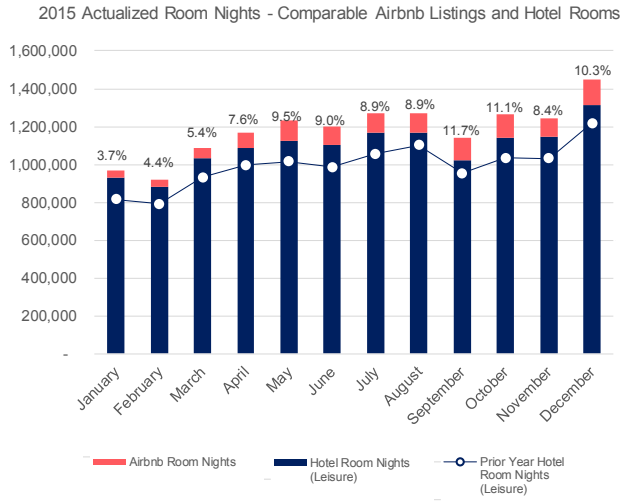
- IHG has created a real-time translator so that travelers can speak English phrases into their smartwatch, or select from pre-loaded common phrases, and be able to translate into 13 different languages. The translations appear on the screen with phonetic spelling to help users read the phrases.[23]
- "Expedia released an app for the Samsung Galaxy Gear smartwatch in August 2014."[24]
- "The Qunar app for the Samsung Galaxy Gear is mainly focused on customer service but it does also have booking functionalities, in particular for last-minute hotel deals."[25]
- Starwood was among the first to introduce an Apple Watch app. The app allows guests to unlock their rooms with the watch instead of room keys.
- Westin is lending its guests sleep-sensing wristbands to monitor their well-being.

PEER TO PEER BUSINESS MODELS: THE "SHARING ECONOMY"

It is no surprise that the peer-to-peer business model economy is one of the fastest growing segments in the travel industry. While the popularity of Uber and Airbnb have caused concern for travel companies, there is much to learn from their quick success. Despite many remaining skeptical of the role the sharing economy may play in the mainstream travel industry, 60% of the millennial generation trust these services.[26]

Airbnb is potentially a major competitor for traditional hotel companies in major urban markets. Although they don't own any inventory, Airbnb has access to one of the largest inventory bases of rental units in the world and has exceeded the market cap of hotel giants such as Marriott, Wyndham, and Starwood.[27] Although hotel companies and Airbnb will co-exist in the same space, Airbnb may have an effect on hotels' revenue and profit margins.[28]

Below Kalibri Labs data shows a view of Airbnb's supply relative to the hotel supply in the New York City market.



Additional analysis on Airbnb can be found in the New Entrants – Airbnb and Short-Term Rentals section.

LOYALTY PROGRAMS

Many brands are asking whether consumers are brand loyal anymore and what they can do to engender brand loyalty if it does exist. Brand loyalty has been seen to be on the decline for several years as product commoditization has increased. More and more, price trumps brand, and the lowest priced hotels end up getting the customer. Frequently, consumers are members of multiple loyalty programs and carry multiple brand credit cards as they seek to maximize the value they can get from these programs.

With so many customers becoming members of a variety of loyalty programs yet not remaining loyal to one brand, an issue has been created for hotels. This issue has caused hotels to increasingly work on differentiating themselves by creating an even more personalized experience. Simply collecting guests' names, phone numbers, and credit cards is no longer enough to create an experience. Today, data is gold and the more data hotels can gather on a guest the more successful they will be at tailoring that experience to the guest. Knowing someone's coffee preferences, favorite breakfast meal, or even their dress size will separate the truly successful hotels from the rest.

With the growing strength of the loyalty programs by major hotel companies, and the added flexibility on rate parity guidelines to allow hotel companies to make special offers to loyalty customers, customers are not only increasingly spreading their loyalty program participation across multiple hotel chains but also across the OTAs that now offer their own programs.

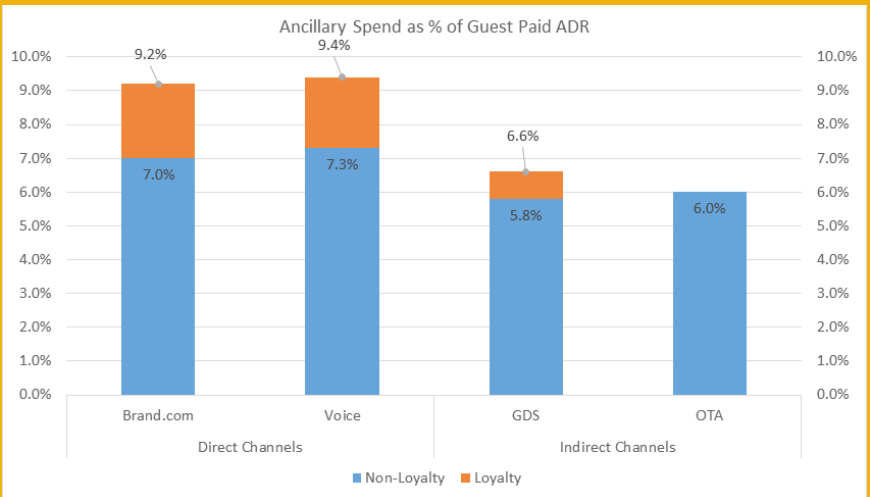
Hotels.com offers a free night after you book 10 nights; Orbitz (acquired by Expedia) offers 5% credits for mobile bookings and 3% on computer bookings; Expedia+ Rewards gives 2 points per dollar spent on hotels or packages, and 1 point per $5 on flights; Priceline Rewards credit card earns 5 % back on Priceline purchases and an additional 1% on other purchases. These programs tend to be strictly focused on dollars and cents whereas the hotel brands are able to offer more on-property benefits.

LOYALTY CUSTOMERS: ROOM AND ANCILLARY REVENUE SPEND ANALYSIS

How do loyalty guests compare to non-loyal guests? Kalibri Labs performed an analysis on select Upper Upscale and Luxury hotels to evaluate loyalty program performance and how it impacted ancillary spend. Loyalty guest ADR ranged from 5% to 20% higher and was consistently higher than non-loyalty guest ADR.

A further topic on loyalty guests was food and beverage spend. In the Kalibri Labs analysis loyalty guests consistently out spent non-loyalty guests for transient and small group business. Loyalty guests also tended to spend more when they had booked through Brand.com and Voice channels as opposed to other channels. In summary, loyalty guests result in a higher profit contribution as they are (1) spending more in room rate and food and beverage and (2) they are also more cost effective to acquire due to their inclination to book direct which means they come to the hotel through lower cost channels.

This chart shows the amount of ancillary spend as a percentage of guest paid ADR for loyalty and non-loyalty guests. Loyalty guests consistently spend considerably more in ancillary revenue centers than non-loyalty guests.



TRAVEL INSPIRATION AND PLANNING

Travelers' choices may depend on an exceptional recommendation from friend, an eye-catching photo or article, or even a destination visited in a TV show or a movie.[29] These choices could also simply be a pricing decision for those who view the travel experience as a commodity. This process is quite lengthy for most travelers; PhoCusWright estimates that the average U.S. discretionary traveler spends about 21 days selecting a leisure destination, and this selection is made 87 days before departure.[30]

While it is difficult to accurately quantify what leads to travelers' decisions, it is clear that online research plays a large role in travel inspiration. Google estimates that 65% of U.S. travelers use the internet for travel inspiration, followed closely by recommendations from family, friends, or colleagues (62%)[31]. Google's research found that most people (83%)[32] begin their online search for travel by using social media and looking at videos or pictures. And many people (61%) also use search engines to begin their travel journey.

TRAVEL INSPIRATION SITES IN POPULAR BOOKING ENGINES

Ever since the rise of social media, narrow travel inspiration sites have struggled to maintain a fan base and many have shut down. Companies such as Dopplr, Tripl, Wanderfly, and Uptake have either been acquired by travel industry giants or simply could not make it on their own in the crowded online travel space. By copying or acquiring these sites, already established booking engines developed travel inspiration tools of their own. [33]

Booking.com's Destination Finder

Booking.com launched their Destination Finder in order to help travelers choose a leisure destination for their next trip. The application allows users to scroll through suggested locations and filter based on their desired activities. [34]

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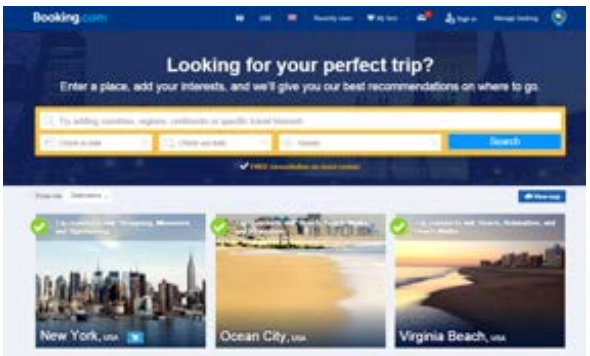

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TripAdvisor's Travel Inspiration

TripAdvisor's Travel Inspiration site allows customers to choose the type of trip they want to take and a geographic location. By clicking "Inspire Me," travelers get a wide variety of trip options that have links leading to hotel bookings, vacation rentals, and flight searches. Simply by clicking through the Trip Advisor website, travelers can now book through Trip Advsior, or book through a partner OTA.

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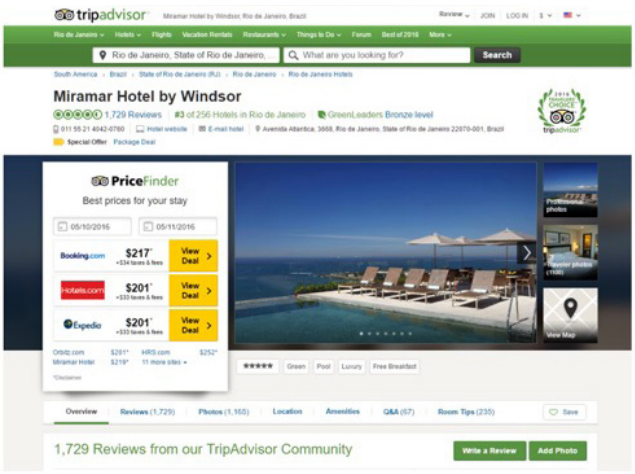

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EMERGING SOURCES OF TRAVEL INSPIRATION

Perhaps without knowing it, travel inspiration is something potential travelers are exposed to every day. Simply by watching TV or browsing the internet travelers consume travel pictures and trip anecdotes without any effort to seek them out. Through subscriptions or shared content, sites such as Buzzfeed, the Huffington Post, Pinterest, personal blogs, Tumblr, and Instagram provide travel inspiration.

Buzzfeed

Buzzfeed is a social news media and entertainment company that produces viral content and relies on social sharing in order to drive traffic. Buzzfeed staff and users create video and photograph-centered lists and articles that tend towards being informative, humorous, and entertaining, and are easily shared on social media platforms. Buzzfeed's popularity now rivals the largest TV networks in the world in terms of U.S. total reach, and is even more popular specifically among the coveted millennial generation.[39]

Through this, Buzzfeed has become an everyday way to inspire travelers. Example travel articles include: "13 Insanely Romantic Honeymoon Locations in the U.S.," "17 Breathtaking walks in London," "28 Incredibly Beautiful Places You Won't Believe Actually Exist," and thousands more inspirational lists with photos and descriptions. As Buzzfeed content pops into Facebook newsfeeds and Twitter posts, many potential travelers may find it difficult to avoid being inspired on a daily basis to travel. Savvy hoteliers and travel brand marketers have begun using this new advertising channel to great effect.

Huffington Post

The Huffington Post is an online news aggregator and blog which shows daily news articles, entertaining content, and opinion pieces. In addition to standard news, the Huffington Post has branched out significantly into other verticals. On its Travel page, the Huffington Post displays lists, blog posts, and photos that inspire travel and give personal testimonies. Many people often see shared posts on social media sites or are able to peruse many different travel locations and topics posted all in one place.

Pinterest

Pinterest is an online visual "bookmarking" tool that allows users to upload, share, and save images, videos, and content. Each user has their own "boards" to view images but can view other users' boards and search for content. Travel has certainly found a place on Pinterest.

With more than 1 billion travel-related photos covering more than 1.5 billion places, Pinterest is proving itself as an extensive and useful search engine for travel inspiration.[40] Unlike other travel inspiration sites, Pinterest requires a login to view content, which allows them to tailor a user's feed to their interests and social network. Viewing stunning pictures of destinations, all with links to travel websites or blogs, has created an easy way to generate a list of potential vacation destinations.

Personal Blogs

In this age of social-sharing, many people have turned to personal accounts on blogs to share travel pictures, information, and stories. In fact, a variety of different blog types have emerged, some with general travel stories and insights and others with items for specific types of travelers, such as backpackers, solo women, or vegans. Blogs are easy to find from a simple search and many have extensive followings.

Tumblr

Tumblr is a microblogging and social media platform where users post images, music, text, and other content; many users have gained hundreds of followers, or those who read their content. There are numerous Tumblr pages full of travel inspiration and personal travel accounts that others can follow on their own accounts. Followers are able to like or "re-blog" (pass along to others) posts they come across to store them on their own Tumblrs and share with their own networks.

Instagram

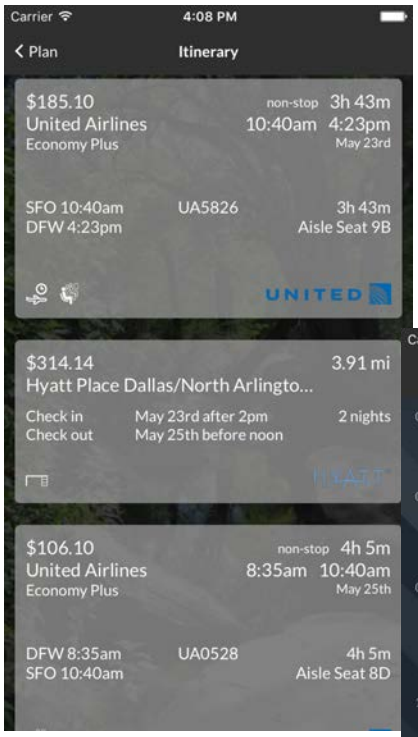
Instagram is an online photo and video sharing social networking platform. Many users have created accounts based around destination and food photographs from their travels. These photos can be accessed by searching for topics and following certain accounts. As a follower, each time the creator uploads a new picture you can see it in your news feed, often accompanied by a location, description, and comments from other users. Instagram has made it extremely easy for people to passively follow and view travel posts, meaning someone can get inspired for a trip just by scrolling through their daily Instagram feed.

Some of these accounts have become quite popular, including one called Legal Nomads, which follows a former lawyer through her world food tour.

Travel and fashion bloggers have become increasingly popular on Instagram. Some of the bloggers are individual travelers, while others are professional photographers or bloggers sponsored by hotels.

TRIP PLANNING

Once a traveler is inspired to visit a particular destination, the actual planning process can begin. Throughout the entire process travelers are seeking and receiving information and guidance from family, friends, colleagues, and trip review sites. They are comparing prices of different destinations and means of transportation and planning the activities they'll do, restaurants to where they'll eat, and sites they'll see. Once the destination is selected, a U.S. traveler will take about 17 days to research major travel elements, such as airline flights and hotel rooms, and begin booking 64 days before the day of departure.[41] The demand by travel shoppers for integrated apps to plan travel is growing. They want the convenience of planning and booking air, hotel and ground transportation. A new app called ETA is being tested that seamlessly integrates all aspects of travel and curates the options so its manageable for the traveler.



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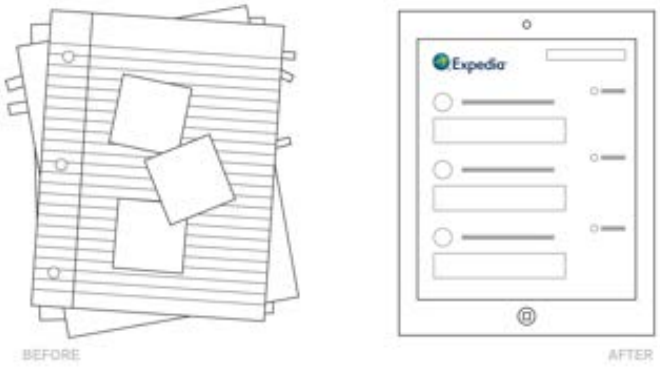
MOBILE TRIP PLANNING

With the rise in popularity of mobile, new applications have been launched to assist with and facilitate the customer's trip planning process. TripCase is an itinerary management app for users to organize their trip on a single platform combining reservation information from airlines, hotels, and car rentals.

Another popular app is TripIt, which parses confirmation information from each of the companies a traveler is using and compiles them into one app. Traverfy is another app that allows groups to collaboratively organize all trip details, build an itinerary, and collect money for shared trip expenses.

The driver of these services is based on the consumer's need to manage the often disorganized travel process. OTAs like Expedia noted the need for these dedicated trip-planning sites to supplement the search process and launched their Scratchpad tool in 2014. Scratchpad allows customers to return instantly to their previous hotels, flights, and packages search with the most current price. This feature works across devices, which facilitates the searching and booking process for leisure guests. [44]

While current apps are designed to pull disparate elements of a trip together in one place post-booking, there are still limited options in the marketplace to enable a travel buyer to assemble and book all parts of a trip in a single app.



Goodbye, notepads. Hello, Scratchpad.

GENERAL TRAVEL AND AIRLINE SITES

Many airline sites are expanding their focus on generating hotel volume. The obvious opportunity area of vacation packages, pioneered in the digital world by the OTAs, has led to this drive. These services tend to be powered by GDS or switch companies though some airlines are working to establish direct contractual relationships with hotel companies to sell inventory as part of their packages. The overall goal for the airlines is to increase their functionality and attractiveness to customers who might otherwise go to an OTA for a vacation package.

In a further bid for ubiquity, most major airlines partner with hotel brands and allow hotel points to be redeemed as miles for flights. Airline websites list featured hotel partners and reward details, and then redirect travelers to book through the hotels directly. Airlines usually require travelers to join the hotel's loyalty program in order to earn points towards both the airline and hotel loyalty programs, which essentially benefits the hotel, airline, and travelers. Major hotel participants in this type of program include Hilton, Marriott, Starwood, Hyatt, and InterContinental, among others.

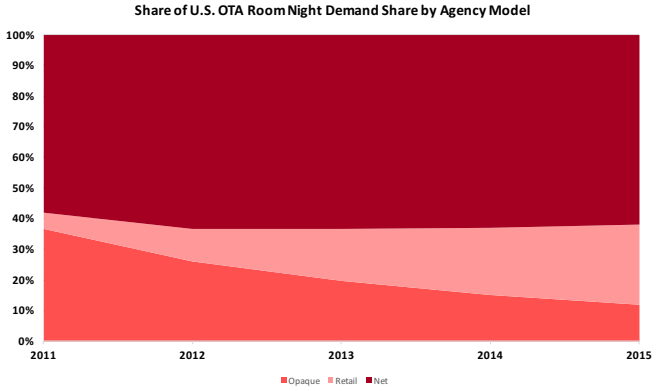
ONLINE TRAVEL AGENCIES

MERCHANT MODEL/ WHOLESALER

Some online travel agencies, particularly in North America, use a business model that is most similar to the traditional wholesale agency business. The "merchant model" is similar to a traditional wholesaler from a rate and markup perspective, but executed entirely online. This "merchant model" means that a hotel provides the vendor with a net rate that is below the rate the hotel is charging for that room on their brand site; it is often anywhere from 14% to 35% below the rate the guest pays. In most cases, hotels will have negotiated limits on the amount the third party can mark up these rates. This may vary by lead time, length of stay, day of week, and type of room as well.

In the case of the "merchant model," the consumer prepays the online vendor for the room and the online vendor later pays the hotel for the agreed-upon net rate. It is called a net rate because the hotel does not pay a commission to the OTA out of the amount they collect. The OTA collects the full rate and remits the agreed discounted portion to the hotel (called a net rate) keeping the difference paid by the guest as a commission. Expedia is the dominant OTA offering the merchant model but they also offer traditional retail rates. This allows them to diversify their offering so consumers either pay now (pre-pay) or "pay later" (at the hotel after checkout). The pre-pay is done through the "merchant model" program and the "pay later" is done through a retail model where the hotel sends Expedia a commission check from the amount they collect after the guest pays and departs.

The below stats show the changes in terms of the OTA business model mix. The growth of retail is largely driven by the rapid growth of Booking.com (a solely retail model) as well as Expedia's introduction of its "Hotel Collect" option.



Agency Type	2011	2012	2013	2014	2015
Net	58%	63%	63%	63%	62%
Retail	5%	11%	17%	22%	26%
Opaque	37%	26%	20%	15%	12%

The merchant model, prepaid by the consumer at approximately a 14-35% discount, can be more lucrative to the OTA in terms of margin as well as "float" (due to the delay in the OTA transferring the funds to the hotel) than the retail model where the hotel rate is paid by the consumer upon check-out after which the hotel generates a commission check for the reseller. Retail commissions may be as low as 10% for hotels that don't have a contract with an OTA, and up to 15%-20% for those with full participation. As they can be more profitable and offer the OTA more flexibility, the merchant program hotels are often featured more visibly and prominently than those in the retail program.

Besides simply offering a room for sale, a common way that OTAs and wholesalers sell hotel rooms is by offering package bookings that include a hotel room along with some other component of travel such as air, car, or ground transportation. In the majority of these cases, the guest knows the hotel and airline brand, but the package price is presented to them as one total number; they do not know how much of the package is allocated to air or hotel. The seller typically offers more deeply discounted rates than are offered on the standard merchant platform; hotels are less concerned about undermining their published rates since the consumer doesn't really know how much they are paying for the hotel portion of the booking. The rates, even after the OTA markup, can be below that offered on the hotel's brand.com site.

Issues of Consumer Deception

The rates provided for packaging to wholesalers can be commonly found for sale as a room only rate. While this is not consistent with the agreement between the hotel and the wholesaler, it happens nonetheless. That means a wholesaler will promote a deeply discounted room for sale to consumers when, in fact, they are breaking their agreement and offering a rate as room only that was intended to be packaged with air or car. The surfacing of package rates for room only sale has significant implications for hotels and brands that offer Best Rate Guarantees through their direct channels. This practice is not a rare instance, and it is very difficult for hotels or chains to patrol this behavior and stop it. It causes erosion in the hotels rates and creates a perception with travel shoppers that there are sites that can offer lower rates than a hotel offers directly.

RETAIL TRAVEL WEBSITES

The retail model includes sites that have been online-only and offer retail as an option to travelers and to hotels, and those that started as traditional agencies that moved their operation online and continued to service clients both ways. Hotels provide retail rates/inventory, and bookings are made. The hotels then pay the standard commission rate, roughly 10% of what the guest paid, after check-out. The commission rate is typically higher, closer to 15-18%, for OTAs operating under a retail model.

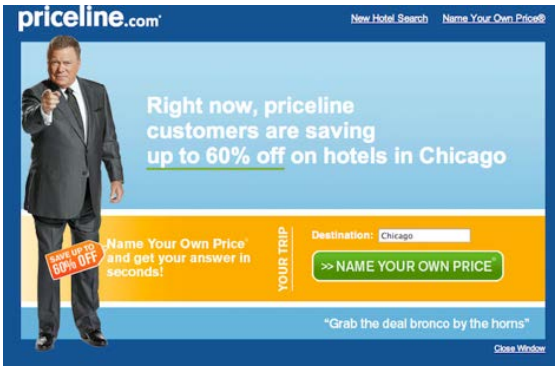
Online travel agencies have typically preferred the merchant model but many have been expanding retail offerings due to consumer preference for paying at the hotel. The most prominent example of this is Expedia's roll-out of "Hotel Collect" or "Expedia Traveler Preference" – their retail offering in wiich most hotels are now participating. In this program guests can choose to either pay at the time of booking, merchant model, or pay at the hotel, retail model, and Expedia will then book the appropriate rate. The rapid rise and continued expansion of retail-focused Booking.com (a Priceline company) highlights the consumer appetite for this type of business.

OPAQUE/AUCTION SITES

Although now relatively small compared to the total OTA volumes in the U.S. market [refer to Figure above for business model breakdown for OTAs], opaque and auction sites were once a much larger part of the market and continue to address a particular type of customer group. Both are referred to as "opaque" because the consumer makes a commitment after shopping to purchase based on general location, rate, and amenities, and will not know the specific brand or hotel name until after the purchase is completed and they have paid. Typically, these sales are non-refundable so guests cannot decide after the fact that they do not like the brand/hotel they booked.

Auction sites are similar to traditional opaque sites but represent sellers where the consumer indicates how much they would be willing to spend and the vendor matches that request with a hotel in the specified location over the requested dates. Auction sites will vary the markup they put on the inventory they've received based on customer bids. Auction sites, like traditional opaque sites, are popular with price-sensitive travelers who are not much concerned about the brand they use.

The most well-known opaque/auction sites are Hotwire (Expedia/Travelocity), a portion of Priceline, and lastminute.com (Expedia/Travelocity). Priceline, the market leader in opaque hotel sales with Express



Deals and 'Name your Own Price' products, has been so successful that others have followed its lead. Expedia offers an opaque option along with its merchant inventory that is branded as Expedia's Unpublished Rate Hotels.

Another angle on the auction process is Backbid.com, which allows consumers to tell any hotels in a destination how much they are willing to pay (even if they are already holding a reservation) and the site becomes a forum for hotels to bid against one another to pursue the same business and to encourage those travelers with reservations to cancel the existing booking in favor of the "better deal" they will get through this site. Although it is a source of price sensitive consumers, the auction model can create a downward spiral in rates in a market along with a rise in cancellation rates which can challenge forecasting accuracy.

Stayful.com is an OTA model targeted at the millennial generation to "negotiate" prices with independent boutique hotels over a 30-day booking window. Users select city and dates of travel which generates a list of participating hotel properties, online prices, and a suggested bid. From the site, users state a non-binding bid price that is instantly accepted, declined, or countered by hotels. Booking though this channel is non-refundable and non-cancelable. Stayful's revenue comes from a 10% commission paid by the hotel for each transaction. While the commission amount is lower than most OTA's, and the agreed rate is not publically visible. Hotels need to be mindful of the combination of the commission plus rate discount when they consider the cost of this model.

OTA-specific Conditions

There are some unique elements to the way OTAs have come to do business as they gained traction since the middle of the last decade. Some hotels have full autonomy on when they give OTAs inventory and can withhold it during peak periods in order to ensure high demand comes in through lower cost, higher touch direct channels. However, some hotels have conditions requiring them to keep inventory available for the OTA until their last room is sold; this is called 'last room availability' (LRA). The LRA conditions gives the OTA significant value in the marketplace by having a wide range of year-round inventory and by being viewed as a reliable storefront with fresh and consistent products by the consumer. It is a tradeoff for the hotel that may incur higher distribution costs by having a larger percentage of its business pass through this high cost channel. A hotel may choose to use LRA when they don't have the skill or resources to fill through direct channels.

Similar to the bias toward featuring merchant model properties, OTAs and wholesalers often reward those properties offering LRA by favoring these properties in search and promotion. Likewise, those that do not offer LRA may be placed lower in the search results for a destination. There are several large hotel chains that recently ended last room availability conditions in order to have more options as to when they use a third party to fill their hotels.

Additionally, a common condition agreed upon between hotels and OTAs is called rate parity. This means that hotels may not offer lower rates on their own sites than they are offering to OTAs and vice versa. Originally intended to avoid price wars, this limitation on which rates can be offered in public sites has served to restrict a hotel's ability to customize rates to specific customer groups. It is only permitted when a hotel or hotel brand has a "closed user group" such as its loyalty members who may qualify for a lower rate, in which case the lower rate is not publically available but only offered privately to this fenced audience.

The practice of rate parity has come under intense scrutiny and in September 2015 was outlawed in France; and in December 2015, the same occurred in Germany, with more countries in the European Union investigating the legality of fixing prices between suppliers and resellers. It is not clear if rate parity conditions may one day be removed from agreements in North America, but it is likely to be evaluated more closely given the activity in Europe.

Flash Sales and Hot Deals

After rapidly growing in response to the 2008-2009 recession, flash sale and hot deal-oriented sites have found competition in larger OTAs who have duplicated their offerings. Some of these sites like Secret Escapes (launched in 2010 and funded by Google Ventures) and Groupon's Getaways business (launched in 2011 in partnership with Expedia) have remained and flourished. This is contrasted with Amazon, which entered travel in April 2015 and announced a departure in October of that year.[45] Additionally, there has been a significant amount of consolidation in this space with traditional OTAs and larger flash sales sites acquiring smaller ones to add scale. Examples of OTA consolidation include Groupon's acquisition of Blink, a same day booking app, and TripAdvisor's acquisition of Jetsetter.

These sites work to sell distressed inventory at discounts upwards of 50% and with a large commission (typically 25% - 50% of what the guest pays). There

has been significant skepticism around the sustainability of this model; many hotels anecdotally pointed out that the guest profile was often not a good match and the opportunity for ancillary spend in other revenue centers made these price sensitive customers considerably less profitable than those that choose the hotel for other reasons besides the deeply discounted room rate.

This model is not scalable and, from a hotel's perspective, there is little to be gained from long-term participation. Guests tend to be looking for the next deal, with little likelihood of returning, making the deep discounts not worthwhile.

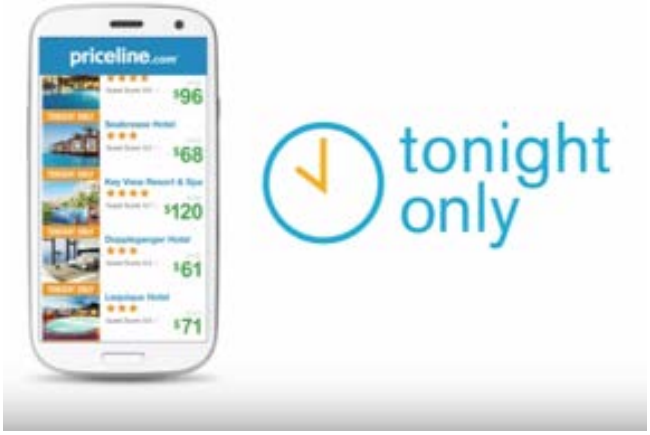
LAST-MINUTE BOOKING SITES

The last minute booking field has continued to expand in recent years. Some new entrants and existing players are trying to build a user base around last-minute bookings by offering deep discounts and easy to use apps. Examples of last-minute booking apps include: HotelTonight, Tonight Only (Priceline), and Sell Tonight (Expedia).

In 2010, HotelTonight launched their mobile platform for same-day bookings. Subsequently, the company has rapidly grown and can claim to have fundamentally changed the way many travelers book hotel rooms with its simple user interface and singular purpose. Originally, users were able to search and book discounted hotel rooms for that same day only, but with competitive pressures, they have since added an offering for a week prior to arrival. Besides offering already reduced rates in comparison to other booking channels (typically including brand.com), hotels pay an additional commission for the bookings.

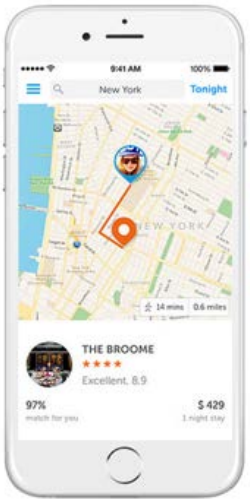
HotelTonight currently has more than 15,000 hotels in its inventory set from across North America, South America, and Europe. Since its launch in 2010, the app has been downloaded by over 11 million users.[46] The company has rapidly expanded in Europe where reservations are increasing. In Paris specifically, bookings grew 304% in 2014.[47] HotelTonight has recently extended their services to same-week availability and in June 2015 launched HT Escape, which shows nearby hotel deals based on the user's location.

As more and more consumers have begun using these last-minute reservation services, well known OTAs have entered this field. Tonight-Only Deals is part of Priceline's mobile app, where users can find same-day hotel deals. This product has more than 4,000 hotels with exclusive discounts of up to 40 percent.[48]



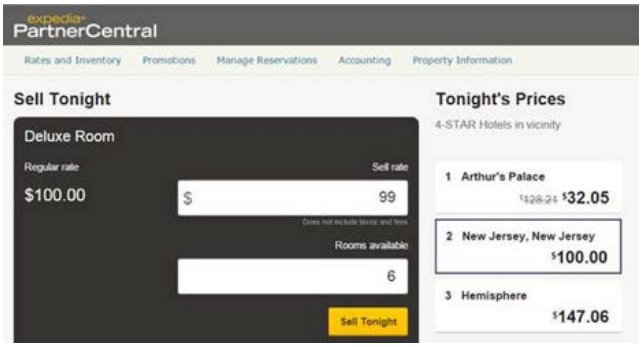
In 2015 Booking.com released a last minute mobile product separate from its main app. The Booking Now app lets consumers make reservations up to 48 hours prior arrival. The app uses the user's location in order to find proximate hotel deals. Additionally, users can customize the hotels displayed based on their price and quality preferences.

As guests have more access to real time data they also expect real time solutions to their hotel needs. The trend of consumers more frequently booking at the last minute has been fueled by many vendors making these deals prevalent in major markets.



Last-Minute App for Hoteliers

Expedia is entering the last-minute space with a feature catered to hotels instead of consumers. In January 2015 the company released their Sell Tonight service, a tool that facilitates hotels pushing last-minute rates. Through Expedia's extranet, hotels are able to use the Sell Tonight feature in order to easily push same-day deals and inventory to Expedia's booking sites including their mobile app. This tool also lets the hotel know about their market's rates to help with pricing.



NEW ENTRANTS AND NEW MODELS

New entrants into the hotel distribution space invariably bring new innovation, force evolution in business processes, and challenge traditional thinking. They can initially generate significant friction but will eventually lead to a better customer experience and better products.

HotelsByDay

HotelsByDay is an online travel agency that seeks to take advantage of the inventory that may be sold during the day at many hotels. This site books hotel rooms for day-use customers who only need a room for several hours. The most common use case for this type of product is for travelers who arrive at a destination early in the morning and need a place where they can shower, nap, or refresh for a few hours before their activity or business that day. Hotels pay a 7.5% commission on each transaction, a significantly lower rate than a nightly stay.

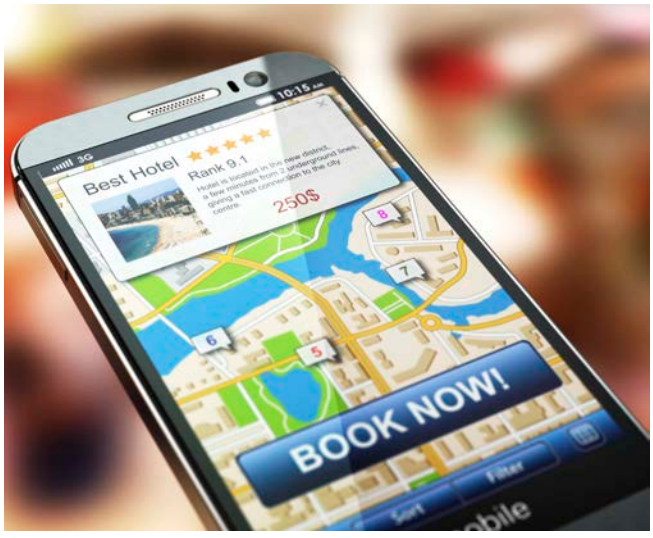
HotelsByDay will face challenges integrating into many hotel properties, particularly as it relates to inventory management and the operational logistics of ensuring a timely check-out of day guests and turnover of the occupied rooms for evening guests.

TripBam

TripBam is a booking site and service that allows travelers to provide arrival and departure dates and a preferred cluster of hotels in the selected destination. Then, after a traveler books a hotel room, the site continues to update them if lower rates appear at any of the hotels in their selected cluster. TripBam offers an automatic service allowing the guest to cancel the original hotel and rebook another when a lower rate becomes available. This cancel-rebook process may occur as often as every day until arrival.

While clearly a utility for consumers, this model poses significant revenue management and forecasting issues for hotels. Several major hotel chains have altered their cancellation policies and continue to experiment with more stringent rules, partially to address the proliferation of services like this. TripBam is said to be testing this model with some travel management companies (TMC) with the idea that the annual ritual of setting corporate rates may be replaced by real time rate scanning to find the best rate just before a business traveler's arrival in a city.

While not accounting for sell out dates, this model may be employed by many companies to ensure the lowest rates possible. It will also wreak havoc with a hotel's ability to forecast accurately and may instigate local rate wars in competition for once lucrative corporate base business. Hotels do not contract directly with TripBam, they merely pay the standard travel agent commission for the room based on how TripBam sources inventory. For individual consumers TripBam does not charge any fee but at the corporate level there is a fee associated with their service.



Roomer

Roomer is a company that allows consumers who are no longer able to use their non-refundable hotel room to sell it to other travelers to get some money back on their purchase. Consumers who would have otherwise lost money to cancellation can recoup some of those dollars and other travelers are able to get a hotel room for a discounted price.

Roomer does not have any contract with hotels, but simply asks hotel companies to refer guests who would like to cancel their reservation to use Roomer. Roomer collects a commission from the buyer and gives the rest of the payment to the original reservation owner.

Rocketrip and Travelperk

Rocketrip and Travelperk are services provided to corporate accounts that offer incentives to business travelers to self-police their own travel and entertainment spending. An algorithm establishes the expected cost of a trip including air, hotel, ground transportation, food and beverage, and other costs; if the traveler's actual costs are lower, the company splits the savings with the traveler and gives them points redeemable for gift cards, merchandise, or other rewards for the value the portion of the amount they saved the company.

Triptease

Triptease is a new model that serves hotels to support their Book Direct efforts and improve brand.com conversion. Price Check is a widget that can be put on a hotel's booking engine to list OTA rates beside the hotel's direct rates so a shopper need not leave the brand.com website in order to find out the other rates available in the market. Enchantment is a pop up message that is triggered before a shopper abandons the booking engine and offers customized messages to encourage booking or further interaction with the hotel such as email sign up, special offers, or feedback on the site.

COMPANY NAME	AGENCY MODEL	CATEGORY	ACQUIRED BY	YEAR
Hotels.com	Merchant/Net	OTA	Expedia	2003
Hotwire	Opaque	OTA	Expedia	2003
Venere	Retail	OTA	Expedia	2008
Room77	Retail	Meta search	Expedia	2013
Trivago	Retail	Meta search	Expedia	2013
Wotif	Retail	OTA	Expedia	2014
Travelocity	Retail/Merchant	OTA	Expedia	2015
Orbitz	Retail/Merchant	OTA	Expedia	2015
Travelweb	Retail/Merchant	OTA	Priceline	2004
Booking.com	Retail	OTA	Priceline	2005
Agoda	Merchant/Net	OTA	Priceline	2007
Kayak	Retail	Meta search	Priceline	2013
Fly.com	Retail	Meta search	Travelzoo	2008
Booking Buddy	Retail	Meta search	TripAdvisor	2007
Jetsetter	Retail/Merchant	OTA	TripAdvisor	2013
Homeaway	Retail	Vacation Rental	Expedia	2015

THE EVOLUTION OF OTAS

Consolidation

A major shift in the OTA industry in recent years has been the consolidation of the OTA market and online travel services. The OTA market now has two major players, Expedia and Priceline, which control 75% of the online travel market.[49] (See chart below, left).

Expedia and Priceline have established themselves as market leaders by acquiring metasearch sites and other OTAs. Expedia has spent more than $3.2 billion on acquisitions since 2013, while Priceline has spent over $4.4 billion.[50]

The Priceline Group acquired Travelweb, Booking.com and Agoda in the early 2000s. Their most recent purchase was the metasearch site, Kayak, in 2013.

Expedia acquired four companies in the past three years. In 2013, the OTA giant purchased two metasearch sites: Room77 and Trivago. Following that year, Expedia bought the Australian OTA site Wotif in 2014. In the beginning of 2015, Expedia acquired Travelocity. Additionally, in 2015, Expedia announced the acquisition of Orbitz for $1.6 billion, followed quickly by the acquisition of Homeaway late in the year.
The Homeaway acquisition marks an interesting expansion for Expedia as it brings them into the burgeoning vacation rental market.

Priceline and Expedia are the unquestioned leaders in the OTA space in North America and Europe. That said, they may be challenged by TripAdvisor and by Google Hotel Finder as their Instant Booking services expand and sign up more hotel providers. As OTA consolidation increases, the bargaining power of hotel owners and operators decreases.

The OTAs are struggling to find a new direction in a world where metasearch driven by mobile is certain to overtake the legacy OTA model. Consumers are increasingly turning to metasearch when looking for a wide array of hotel options in a destination. Google appears well positioned to become a leader in the space but traditional OTAs won't go down without a fight.

Expedia's primary approach to surviving in a competitive market involves aquisition to drive scale. Priceline/Booking.com is taking a different tack; they pulled together a trio of companies to provide services to independent hotels. These companies included buuteeq to create websites, HotelNinjas to provide cloud-based property management systems, and PriceMatch to offer revenue management services. Priceline calls

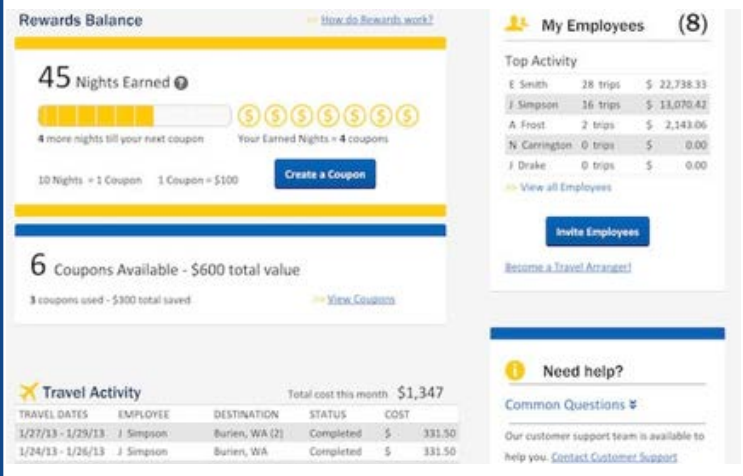
this new offering "Booking Suite" and appears ready to compete with hotel brands and franchisors by offering an end-to-end distribution platform with related services.

An interesting response from a traditional hotel brand to Priceline's strategy came from Accor establishing Accorhotels.com. This is a new booking platform for independent hotels that is open to any qualifying independent but does not require participation in one of the Accor brands. The goal is fundamentally the same as that of Priceline's Booking Suite, to offer an end-to-end distribution solution.

OTA Corporate Travel

The aggressive expansion of OTAs into corporate travel suggests there is a saturation of the leisure segment. OTAs are trying to diversify their customer mix and are moving towards the corporate sector. Egencia, founded by Expedia in 2002, offers a wide variety of services for businesses including trip planning and booking technology, account management, and group meetings coordination. Egencia works with 10,000 companies worldwide and had $5 billion in gross bookings in 2014.[51]

While this product caters to the managed travel sector, Expedia is also focusing on the unmanaged business with the recent announcement of Expedia+ in May 2015. With Expedia+, companies can sign up at no cost and manage employees' itineraries, bookings, and spending. Additionally, the product has a rewards program, where companies receive $100 credit for every 10 nights booked and company's employees have access to exclusive hotel amenities on Expedia's +VIP Access hotels. Expedia specifies that companies will be able to save $4,512 annually per employee by using this new product.[52]



Booking.com is also working to capture the lucrative corporate market. In January 2015, the company announced 'Booking.com for Business.' This new solution allows business travelers who do not have managed travel programs to easily manage their hotel accommodations. A company administrator can create an account for free, where he or she can oversee employee reservations and set budgets. This program offers 710,000 properties in 220 countries.[53]

With these moves it is clear that OTAs have recognized the potential of the corporate sector. David Doctorow, chief marketing & strategy officer and SVP, global marketing of Expedia, claims that "the total U.S. online travel market is a $145 billion business and unmanaged business travel makes up roughly 25 percent of that, which is a $36 billion opportunity."[54] OTAs are working to capitalize on this business opportunity with these new products.

The traditional approach to corporate rates includes a process using Requests for Proposal (RFPs) whereby hotels send bids to corporate accounts to become preferred hotels and they offer specific rates to these accounts. This process is likely to be dramatically changed when new entrants like TripBam can offer business travelers a service whereby they scan for the lowest rate up until the day of arrival ensuring the best rate in the market and auto-cancelling and rebooking as needed. In addition, companies like Rocketrip will partner with the corporate accounts to reward the traveler for choosing the lowest cost travel options for air and hotel by sharing the savings accrued with the traveler in the form of gift cards and other merchandise.

Not to be ignored, Airbnb has also claimed penetration in the corporate online booking market.[55] Airbnb's head of corporate development pointed out that hotels receive 30% of their business from commercial accounts, and Airbnb only gets 10% of their business from that cohort. Airbnb For Business is preparing to expand quickly with its Business Travel Ready designation that will only be applied to qualifying accommodations. The program is intended to address what Airbnb sees as one of its largest opportunities for growth in 2016.

SHORT-TERM RENTALS

Short-term Rental Management Companies

With the rise of this short-term rental market comes an influx of non-hoteliers entering the travel market. In order to smooth the transition between personal homes and rental-ready accommodations, a number of companies have been popping up to serve as hosts' rental management. Guesty, Flatbook, and proprly have all entered the short-term rental space to bring hospitality standards and guest management tools into the online house sharing market.

Guesty is a cloud based management company that currently works exclusively with Airbnb hosts to simplify the booking process. They manage everything from taking bookings, responding to guests, screening potential guests, improving a host's/rental's profile, scheduling cleanings, providing guest support, and even key transfer. It is a one-stop tool to facilitate Airbnb rentals. Guesty charges a 3% fee for each booking made while using their service.

Flatbook also performs a similar service for entire short-term rentals and sublets through Airbnb and Homeaway listings. Apartment owners, and potentially home owners, apply to Flatbook to have their home listed. If accepted, Flatbook manages all listings on sites such as Airbnb and Homeaway and comes to set up the space before travelers arrive. Since Flatbook takes a hands-on approach, they currently only operate in 30 cities globally and hand-pick clients. Because they manage all the bookings and screen guests, they cover a host's space for up to $2 million dollars if anything goes wrong or is damaged. Flatbook prides itself on having a higher level of service and provides amenities normally not available in most short-term rentals.
The rapid growth in short-term rental markets brings with it significant controversy. There are substantial concerns that short-term rental properties are not required to meet the same safety codes as hotels, are not paying lodging taxes, can result in eviction from rental units, and may decrease the value of residential neighborhood houses.

While Airbnb and other short-term rental companies are facing backlash from the hotel industry and city governments, they are arming themselves with lobbyists and improved PR operations to change zoning regulations and housing laws. As laws change and restrictions tighten on short-term rentals, we are unlikely to see a disappearance in rentals, but a change in the way they currently operate.

GLOBAL DISTRIBUTION SYSTEMS

GLOBAL DISTRIBUTION SYSTEMS (GDS) CONNECTIVITY AND SWITCHES

According to Kalibri Labs data, for the overall U.S. market, the GDS channel commands roughly 14% of room nights; this includes travel agency business but excludes OTA volume that is powered by a GDS. The four major GDS players are Sabre, Amadeus, Galileo, and Worldspan. Sabre is primarily focused in North America and Asia while Amadeus is more centered in Europe. These channels have been able to supplement their room volume by powering or partially powering OTAs. This additional business, on top of the volume from the travel agency community, has been threatened as more OTAs establish direct connections with hotel companies.

GDS Functionality

GDS systems were originally designed to display hotels in a "neutral" fashion based on a travel agent's query for a city. As they've been spun off from parent airlines and become independent, they now offer a variety of merchandising and advertising options for hotels. This includes more prominent screen placement, ad banners, and access to travel agency contact lists.

Initially hotels were an add-on along with car rental and other services for GDS bookings. The primary business was selling airline tickets. However, the GDSs, through travel agencies, turned to hotels when the airlines capped their commissions on the back of their financial tailspin. As this was happening online travel was beginning to move to more of a self-service model potentially threatening the future of both travel agents and GDSs.

As the 2000s began the GDSs navigated the growth of the OTAs and intermediaries by working with and powering some of these OTAs and other intermediaries. Travel agency business began to narrow to more specialized corporate and complex leisure bookings as the simpler of both moved to self-service through direct hotel sites. A study conducted by American Society of Travel Agents (ASTA) in 2014 shows that GDS usage by ASTA agencies declined from 98% to the 2014 total of 72%.

The GDSs have sought to carve out a niche for themselves by developing technology solutions to further benefit their OTA partners as that's where they see a significant part of their potential value. Additionally, some GDSs, particularly Amadeus, are working to become more general technology solutions centers by providing systems such as a CRS, among others. This is not dissimilar to what some OTAs are doing to increase the breadth of their offerings to hotels.

The challenges that GDSs face are continued disruption by the OTAs as they continue to expand, leading to additional contract concessions and guaranteed minimums demanded from hotels, and significant legacy technology issues. As OTAs add services for traditional GDS clients, such as corporate travel, GDS dominance of those markets will continue to erode.

Switches and Channel Management

Switches, such as Pegasus and Derbysoft, and smaller channel management companies, such as EZYield, exist to facilitate the connection between hotels and GDSs as well as OTAs and smaller regional players. These companies make it easier and more cost effective for hotels to connect their rates and inventory into GDSs and smaller OTAs, CVBs, etc. than it would be for them to directly connect. Part of the idea behind these companies is to reduce the steps and/or cost necessary between a hotel and getting its inventory to the consumer.

Summary of GDS and Switch Technology

While they are threatened by the market and face a need to evolve, the GDSs as we know them are not going anywhere anytime soon. A large majority of travel agencies still rely on GDSs to source and book hotel, flight, etc., inventory, and in the markets that benefit from their services, GDSs will grow. Connection to the GDSs is still seen as a necessary step for a hotel to distribute itself online, particularly in the lucrative travel agent market. Whether they are connected directly to the GDS through their CRS or go through a switch will depend on each hotel's situation.

It remains to be seen if the strategy of doubling down on powering OTAs through technology and other enhancements, as well as that of offering additional services like a CRS, will pan out for these companies.

OFFLINE WHOLESALERS

Long before the emergence of the digital marketplace, wholesalers and tour operators were a big part of hotel distribution to leisure guests. These parties predominantly deal in package-based business, meaning hotel plus any combination of air, car, other transportation, and various activities and attractions. They are most prominent in fly-to leisure destinations such as the Caribbean, Mexico, and Hawaii in the Americas as well as most major markets in Europe.

The business that wholesalers bring is a mixture of group-driven and individual leisure travelers. Those individual leisure travelers, known as FIT travelers, come through tour operators that have arrangements with local hotels. These FIT travelers are typically coming internationally and are relying on the tour operator as the traveler isn't familiar enough with the destination to make their own plans directly. The tour operators provide a valuable service in packaging sometimes unique local offerings not easily served through another channel.

Historically, wholesalers have operated based on room block commitments and fixed rates by season. Over the past several years this has begun to change on a wide scale to a more flexible 'dynamic' pricing and inventory model. Difficulties with technology solutions have slowed the progress of this change but there has been acceptance within the wholesale broker space of the need to shift to dynamic pricing to meet the needs of the customer.

In addition to the technology issues, there is concern on the part of the wholesalers that their guaranteed room blocks will be threatened and they will be 'yielded out' frequently with the advent of dynamic wholesale pricing. Due to this, many wholesalers are using dynamic pricing relationships to supplement existing static relationships to maintain a bulk of allocated room nights.

The rise and dominance of the Online Travel Agencies has severely disrupted this market. But while consumers are ever more frequently going to OTAs to book travel in destinations with which they are unfamiliar, the wholesale and tour operator market still fills a unique niche not supported by other distribution partners. In particular, emerging markets still rely heavily on these wholesalers to help fill rooms with international guests.

It is likely that OTAs will continue to erode into this market as they expand internationally and acquire more local players. Wholesale business is typically more expensive for hotels, requiring a larger net margin compared to OTAs due to the higher level of servicing. From the hotelier's point of view, even with OTA disruption, receptive operators represent a potentially valuable niche of business.

DIRECT CHANNELS: VOICE, BRAND.COM, AND PROPERTY DIRECT

VOICE

With the rapid rise and current prominence of digital distribution channels, the voice channel often gets disregarded or relegated to a secondary status. Due to increasing consumer preference focused on searching and booking online it's easy for a hotel to overlook this seemingly outdated channel.

Despite all this, for many hotels, particularly luxury and resort properties, the voice channel still represents on average 8.3% of a hotel's channel mix, based on Kalibri Labs data for the U.S. market. Due to higher ADRs and longer lengths of stay at these types of properties many consumers find comfort in speaking and booking with someone directly associated with the property. Additionally, consumers may have a complex itinerary of activities they want to plan which may not be supported by the hotel's brand.com site or through an OTA.

One important benefit of the voice channel is it facilitates a hotel's direct relationship with the guest. A positive guest booking experience can resonate with consumers. The voice channel allows an agent to deliver great service over and above what a guest would receive through other channels. Given the high percentage of bookings that are intermediated by 3rd par-

ties, the guest experience is one of the few remaining things a hotel has the power to control in order to differentiate itself both from hotel competitors and from intermediaries. Any opportunity to build a relationship must be seized upon and honed. The voice channel allows a hotel to begin forming the guest experience long before the guest arrives.

In addition to owning the guest experience, the voice channel also opens the door for upsell opportunities and additional ancillary revenue spend. Well trained call center staff can take the time to explain the value in potentially pricier room types and amenities offered by the hotel which can result in higher value customers. On average for the U.S. hotel industry the Contribution to Operating Profit and Expenses (COPE %) for the voice channel is among the highest in terms of profit contribution at around 93%. We also see a Net ADR premium of roughly $13 compared to an average of the other channels, based on Kalibri Labs data for the U.S. market. While not all customers may choose to book by phone, those who do tend to spend more and stay longer.

Digital channels always receive the attention and hype, but it is important for hotel teams not to ignore what is quite possibly their most profitable channel, voice. Taking a holistic omni-channel approach to generating bookings is a healthier way for a hotel to remain profitable. To the extent that a hotel has opportunities for voice bookings, improving the conversion rates alone can compensate for a large amount of third party "high cost-low touch" business.

BRAND.COM

The proliferation of distribution intermediaries in the hotel industry over recent years has changed the hospitality distribution landscape dramatically. This new class of competitors, or "booking brands," has introduced a significant set of challenges for the traditional hotel companies, or "stay brands." This crowding of the landscape has added many potential stops for customers along the booking path, each adding their own cost to the process, inevitably paid by the hotel.

As hotels are learning the adverse effects intermediation can have on profitability there has emerged a strong focus on growing property direct business. This channel tends to deliver the most attractive "low cost-high touch" business.

Brand.com, much like voice and other direct channels, affords the hotel an important opportunity to build a real relationship with the guest. Though not as personal as voice it is still an important direct touchpoint. Additionally, brand.com has a significantly lower cost of sale for hotels, with a U.S. industry average COPE of 92.6%, making customers who book through this channel more profitable.

With the rise in online third party intermediaries and the short-term online rental, consumers have more choice than ever when deciding where to go to research and book online. The latest research from the AH&LA Consumer Innovation Forum on the consumer online sales path analysis indicates that the billboard effect no longer supports the thesis that OTAs and third parties act as "billboards" driving users to book on brand.com. In fact, the study shows that when customers visit intermediary sites, they are less likely to book hotels at hotel websites.[56] This research emphasizes the importance for hotels to put time and resources into building, maintaining, and marketing their brand.com websites in order to continue to retain customers. Complete study results are in the Consumer Behavior section.

Online consumer behavior studies show that the average time spent on a website is 15 seconds.[57] That means if your website is not visually stimulating and providing complete information the guest will abandon it and move to the next site, likely a third-party. According to Expedia doubling a hotel's online pictures can result in a 4.5% take-up and $3.50 higher ADR, while providing a full property description (as opposed to a partial one) can result in a 5% take-up and $3 higher ADR,[58] proving content is king.

While there are many third-party intermediaries that try to intercept the relationship between the consumer and the hotel, there are many new companies emerging that allow hotels to maintain a direct relationship with consumers. Triptease is a good example of a micro-metasearch that is placed on a hotel's booking engine to show the consumer other rates available for the same time period through OTAs and other sources. If a hotel has the best offer (not just the best rate, but the best value), they can keep the consumer on their own site and give the consumer confidence in knowing they are getting the best deal. This type of applications allows a hotel company to maintain more direct relationships with their customers. Stepping up activity through direct channels will result in a higher percentage of low cost-high touch business; this is one of the best ways to reach a hotel's optimal net revenue.

With competition in the online space fierce, hotel companies must invest in their brand.com websites to protect their most valuable and influential channel.

GROUPS AND MEETINGS

The groups and meetings segment is an important one for the hotel industry as it accounts for roughly a third of the U.S. room revenue. This fact made recovery from the 2009 recession particularly difficult for the hotel industry as groups and meetings business took twice as long to recover as transient business. The long recovery was predominantly due to decreases in group occupancy.[59] Additionally, post-recession meetings were shorter in length and they included fewer attendees versus years prior.[60, 61]

Groups and meetings room revenue in the upper upscale, luxury, and independent segments reached pre-recession levels around 2014 and then started on a healthy growth path.

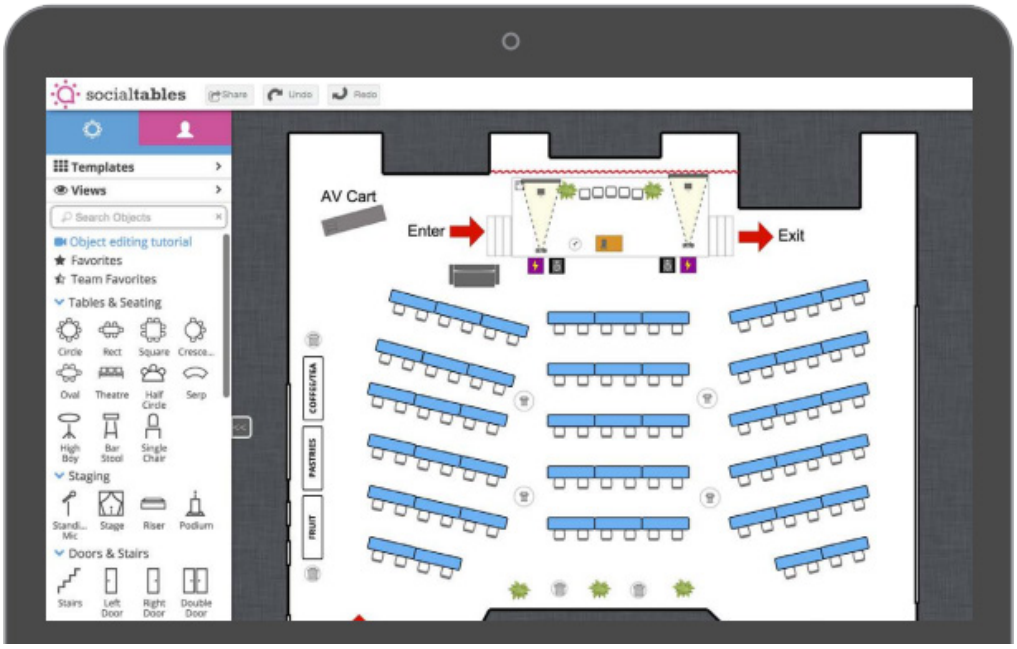
In fact, the groups and meetings segment is expected to continue to grow through 2016. According to Joseph Bates, VP of research for GBTA Foundation: "The U.S. economy is entering the mature phase of the current business cycle. That means we are nearing full employment along with steady gains in GDP and solid business confidence. This suggests we will see continued, steady, and growing demand on the group business travel side as well as the transient business side."[62]

This post-recession rise in group demand has run parallel to a large shift in the distribution landscape. The traditional direct relationship between hotels and meeting planners has been intercepted by intermediaries and is estimated to be half of all group business. This intermediation is driving higher costs for the groups and meeting market and, similar to this trend in the transient segment, hotels are bearing the entire incremental costs. While many in North America may pay 10% of room revenue, in some markets the commissions apply as well to food and beverage spend. Many companies pay bonuses and internal company commissions in addition to the fees paid to the third party causing the average cost to end up upwards of double the base commission rate.

The rise in groups and meetings intermediation is a result of convergence of several factors. One primary factor is that many companies have decided to significantly outsource their meeting planning departments to intermediaries to reduce internal costs.[63] Third party meeting planners offer to source business for corporate or association accounts at no charge to the corporate or association account; they collect fees from the hotels. Companies like HelmsBriscoe or ConferenceDirect provide this type of service. This is especially true in regards to larger meetings consisting of 300+ attendees.[64] Additionally, in recent years group-focused electronic channels (eChannel solutions) have emerged for groups and meetings, and companies like Cvent, Starcite/Lanyon, Groupize, and Cendyn have found ways to automate pieces of the group planning process with eRFP systems and marketing solutions. Other solutions like Passkey automate the reservation process for groups. Automation for the groups and meetings channel is not simply a trend; it has become a standard practice.

Meeting planners are now relying on eChannels and intermediaries more than ever due to the ease and convenience they provide. Many meeting planners say they heavily depend on eChannel solutions to help them plan their meetings.[65] In 2012, a number of the large brands publicly reported that nearly 30% of group business at their properties was booked via third parties.[66] By 2014 the Group and Meetings segment hit an all-time high with over 40% intermediation.[67] Current trends suggest intermediation could grow to 60% of group revenue by 2019, with intermediary payments growing much faster than revenues.[68] Other innovative digital platforms in the groups and meeting space, such as Socialtables and others, are providing solutions that leverage new technology to visualize meeting space as well as facilitate actual event management.

The rise in intermediation and the reliance on eChannels has resulted in higher costs and higher commissions paid by hotels. If group intermediation continues on this steady climb and more eChannels move to automated booking, it could mean staggering costs for the hotel industry, costs that will ultimately be passed on to the customer, and which will have a net negative effect on the organizations holding meetings and on the hotels trying to service them effectively. Each percentage point increase in commissions will decrease property value by nearly $600 million in 2019. Should eChannels start charging a 10% commission the increased intermediation and commissions could decrease current hotel property value by $15B by 2019, putting immense pressure on hotels to cut costs.



For this reason, it is important for hotels to carefully manage their groups and meetings business. Finding ways to better connect the meeting planner and the hotel will make a significant difference to the meeting planner experience and the ability of a hotel to meet the needs of its groups and meetings clients. Hotels must find ways to improve what is a tedious and cumbersome process for meeting planners while delivering a great experience for the meeting attendees.

CONTENT ENABLES SALES

In this new world where the digital arena is becoming the primary marketplace for buying and selling products such as travel, retail goods, music, and movies, quality content is the differentiator that drives consumer traffic, engagement, and ultimately conversions, which leads to dollars. This idea drives the value of having the best content to enable merchandising, the value of which rises in proportion to its contribution to the sale of those merchandised products. Third party sellers and aggregators consolidate pricing power for themselves by pooling this content and becoming gatekeepers to its access. This highly prized resource of a rich pool of compelling content is very attractive and valuable to marketers. The more compelling to consumers, the more it will drive revenue and the more the aggregator can charge for its use. In turn, the hotel will pay the marketer who uses this rich content to sell their hotel rooms.

CONTENT'S ROLE IN THE HOTEL BUSINESS

It's important to look at how this idea of the value of content fits into the traditional view of the hotel business.

As discussed earlier, hotel companies have not only given away their own content to enable third party sales, but have also invited these same sellers to come in and create their own content, sometimes at a cost to the hotel.

By providing content directly, the hotels enable third parties to create a powerful marketing and merchandising resource. This resource is then used to drive consumer traffic and engagement, for which the hotel then pays a premium, generally in the form of commissions.

What at first seemed like an easy way to get new, low-cost imagery through third parties, this practice may have deeper and more troubling long-term implications. Gatekeepers will be able to use their sway over consumer traffic and engagement as leverage and hotel properties will not have a choice to provide whatever is asked by the third party.

This is much more concerning than the previous era of OTA dominance where hotel companies negotiated specific selling agreements. The level of control over the marketplace in the new digital era will dwarf, by several orders of magnitude, any control that was imposed by the online travel agencies in the decade of the 2000s and 2010s.

THE THIRD DIMENSION OF THE HOTEL BUSINESS: CONTENT DRIVES THE DIGITAL MARKET

"Content is king" is a commonly used maxim, but what does it actually mean? "Content is the currency of the digital economy" is another aphorism but how does this apply to an individual hotel and how does it affect the dynamics of the digital hotel industry? When we talk about content in the hotel industry we refer to everything from hotel descriptions, photos, and videos as well as rates, availability, and guest room and meeting space inventory. Essentially every piece of information about a hotel that is necessary to merchandise and sell its services is valuable content.

Creating, storing, curating, and controlling this content has become a core strategy for many large technology companies. This applies not only to those specific to the travel industry, such as Priceline or Expedia, but also to companies for which travel is only one of many industry verticals. Google, for example, has and continues to amass power around content for every aspect of the digital economy in many sectors, not least of which is travel. Amazon is another comparable in the world of retail merchandising but which is also rapidly expanding outside of that field.

Content enables the merchandising of products and services that ultimately results in sales. It is as simple as that. The better that content is and the easier it is to access, the more valuable it becomes. Those that control the content have greater access to the consumer and therefore benefit more from consumer spending.

As consumers demand, and sellers provide, more and higher quality content to power the sale of hotel products (rooms, meetings, ancillary services) will be expected and the desire for control and influence over this content will only increase. Examining its role in today's market is a valuable exercise in determining how this may play out.

As third party digital distribution sellers (OTAs, various travel agencies, metasearch players, etc.) emerged in the early 2000s, hotel companies provided descriptive hotel information as well as rates and inventory to them. The third party sellers used that content to sell hotel rooms on which they earned a commission or transaction fee. Over time the third parties supplemented this hotel company-supplied content with merchandising material of their own. This included search engine-friendly descriptive copy as well as new photography. Examples of the latter include Expedia taking thousands of photos of hotels to enhance the imagery provided, thereby increasing sales, as well as Google offering to create interior "Hotelview" packages (similar to Streetview) of properties and giving hotels the license to use the images. The crux is that, in both cases, Expedia and Google own the content and retain full access to it. This high quality material provides a significant benefit to the hotel but comes with some risk. That risk lies in empowering a third party with better merchandising content than the hotel may provide.

Online Consumer Behavior: The Online Travel Shopper's Journey

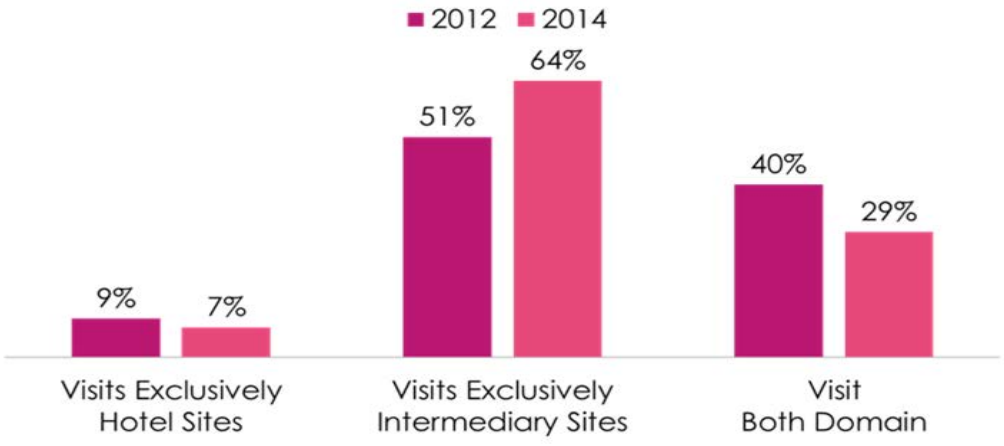
Using calendar year 2012 and 2014 data from ComScore's online user panel, Dr. P.K. Kannan and his team at the University of Maryland performed a study analyzing the online purchase behavior of travel shoppers. Specifically, they looked at shopper visits to two types of websites: direct hotel brand.com sites and third-party intermediary sites. The central question was around the relationship between visits to the two sites; did visits to either one make a purchase on one or the other more likely?

SUMMARY OF RESEARCH FINDINGS

They found that, contrary to popular belief, the more visits a shopper makes to an intermediary site the less likely they are to book on a direct hotel brand.com site. In addition to that, the percentage of shoppers that exclusively visit third party sites is increasing and the same metric for brand.com sites is decreasing. However, there was an uptick in the number of brand.com buyers who returned to brand.com for follow up purchases.

The methodology for the analysis relied on click-stream and purchase data sourced from ComScore online panel members for the calendar years 2012 and 2014. This panel is a randomly selected 100,000-person cross section of over 2 million internet users. The sessions considered for this analysis were those in which a user had at least one visit to a hotel or intermediary website. An important note is that this analysis includes only desktop/laptop visits and is not inclusive of mobile. It is possible that this could introduce some bias given different mobile booking patterns.

Behavior of Visitors to Hotels and Intermediary Sites

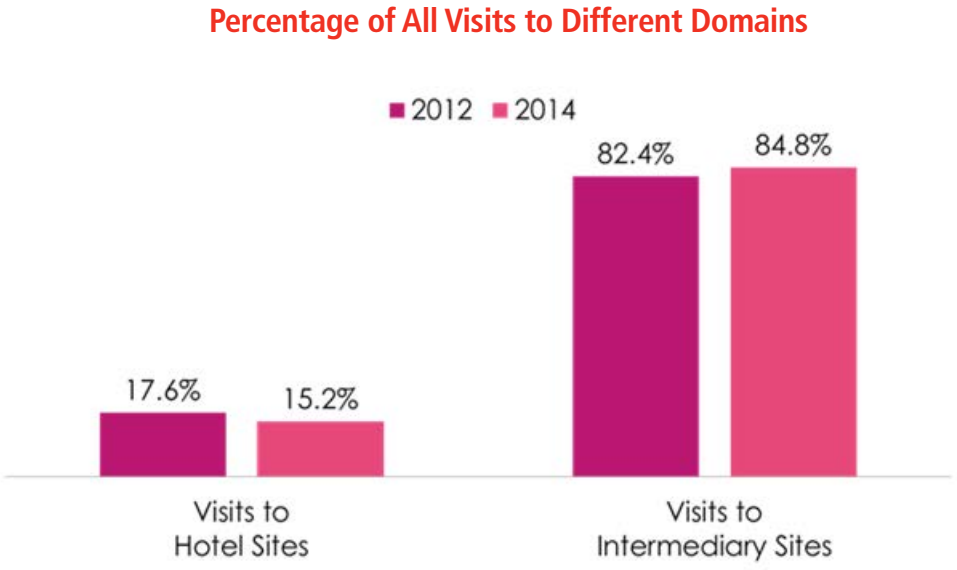


The percentage of visitors exclusively visiting hotel sites has decreased as has that of visitors that visit both types of sites. At the same time the percentage of visitors who only visit intermediary sites has increased. This increase appears to come from users who have switched to only visit intermediary sites.

However, based on the strength of the intermediaries in the mobile arena compared to the hotels, this type of bias would likely paint a more favorable picture for the hotel brands than may be accurate if mobile usage was included.

As we dig deeper into their analysis and look at the data on a visitor level, i.e., looking at the behavior of users as opposed to individual visits, we see that the percentage of users who shop exclusively on intermediary sites is increasing. This is at the expense of those who shop exclusively at direct hotel sites (figure 3 below).

When we expand this out to the visit level, i.e., the total number of visits users make to each type of site, we see that from 2012 to 2014 the proportion of visits to hotel sites has decreased while those to intermediary sites has increased (figure 5 below).



The overall share of visits that go to hotel sites compared to intermediary sites has decreased from 2012 to 2014.

Additionally, Dr. Kannan and his team examined the switching relationship between these types of sites. This directly addresses the 'Billboard Effect,' the idea that users will become aware of a hotel through a visit to an intermediary site and then go on to book that hotel directly on the brand.com site. The findings from this study definitively counter that. What the study found is that, even in 2012, the probability of a user visiting an intermediary and then transitioning to a direct hotel site was only 9.3%. In 2014 this probability dropped to 7.0%. The hotel companies have done a good job increasing the probability that a user visiting a hotel site will likely return to a hotel site in subsequent visits and not be likely to visit an intermediary. Basically, what this data makes clear is if a consumer visits an intermediary site, he or she typically remains at an intermediary site for booking and for future visits (figure 6 below). The study did not explore the behavior of consumers when third party sites have specific promotions in play with hotels.

On top of the pure visit analysis, Dr. Kannan and his team looked at how these visits to different types of sites impacted booking. Summarizing their findings, visits to hotel websites positively impact bookings on hotel websites. This stands to reason. If a user is visiting a hotel website they are more likely to book on a hotel website. On the other side of this, overall visits to intermediary websites have a negative impact on bookings at hotel websites. If a user visits an intermediary, they are less likely to book a hotel product on a hotel website.

Switching Probability between Types of Sites

The probability that a user will visit an intermediary and then go to a hotel site is very small, 7% in 2014. Most likely, if a user visits an intermediary site they will stay there or continue going there.

The visit-to-booking relationship findings remained fundamentally similar when compared from 2012 to 2014. However, an interesting difference did emerge related to users booking products other than hotels on intermediaries. In 2012, when a user booked a non-hotel product on an intermediary, for example airfare or a car rental, it positively impacted their likelihood to book a hotel directly on a hotel site. However, in 2014, that non-hotel product booking on an intermediary now also positively impacts the user's likelihood of booking a hotel product on an intermediary. Fundamentally, this indicates that the intermediaries have gotten better at convincing users to book all of their travel products on their sites (figure 9 below).

In summary, this study shows the increasing power and ubiquity of the intermediaries. Not only are more users in general visiting these sites, but a higher proportion of visitors are loyal to them than in years past. In addition, the intermediaries are getting better at convincing users to book everything with them as opposed to booking the hotel component of their trip directly with the hotel.

However, the hotel sites are also getting better at encouraging loyalty in the booking behavior, and are doing a better job of keeping visitors from transitioning to an intermediary after coming to a brand site. These findings are vitally important for hoteliers to be aware of as they consider relationships and agreements with intermediaries; the longstanding conventional wisdom that online travel agencies are providing visibility (i.e., a billboard for the hotel) that translates to incremental bookings on their own website is proven to be false by this study. The visibility that a hotel gets from the online travel agencies seems to result largely in OTA bookings only.

15 Shoppers will visit hotel brand.com sites.

85 Shoppers will visit intermediary sites.

8 Shoppers will stay with hotel brand.com sites.

79 Shoppers will stay with intermediary sites.

7 Customers will leave hotel brand.com sites for intermediary sites.

6 Shoppers will leave intermediary sites for hotel brand.com sites.

What's Coming Next

Thank you for reading Part 1 of *Demystifying the Digital Marketplace: Spotlight on the Hospitality Industry.* Part 1 focused on the context and trends within the digital marketplace of the hospitality industry. Parts 2 & 3, expected to be released in Q4 of 2016, will explore actual hotel performance as well as how hotels can adapt and take action to take advantage of the opportunities in the dynamic digital marketplace. Here is what's coming next:

Part 2 – Hotel Performance in the Digital Marketplace

Incorporating data from over 30,000 hotels in North America, Part 2 of *Demystifying the Digital Marketplace* will review hotel performance metrics. This analysis will include net revenue performance and an overview of industry demand performance by major market. This deeper view of hotel performance will help illustrate channel share shift between 2011-2015 from an industry, market and hotel perspective. Further, Part 2 will also provide some updates on the Book Direct campaigns launched earlier in 2016.

Part 3 – Taking Action

Utilizing industry context from Part 1 as well as hotel performance from Part 2, Part 3 will provide examples and guidance on the types of analysis, tools and actions hotels can implement to evaluate and drive revenue performance. Examples and case studies will be shared on ways that data insights can be deployed to help hotels target and achieve their optimal channel mix, as well as specific techniques and approaches to improve profit contribution. To convey action at the industry level, Part 3 will also contain a roundup of legislative action around issues arising from the explosive and dynamic growth of the digital marketplace.

Endnotes

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ABOUT HFTP

Hospitality Financial and Technology Professionals (HFTP®) is a global nonprofit hospitality association that uniquely understands the hospitality finance and technology industry's practices and challenges. HFTP has over 5,300 members and several thousand stakeholders across the globe. The association assists its members in finding solutions to industry problems more efficiently than any organization via its expert networks, research, resources, certification programs and conferences such as HITEC$_{SM}$. **The association is the ONLY nonprofit producing hospitality financial and technology conferences on a global level.**

CONNECTIONS

HFTP provides its members and stakeholders a variety of outlets and opportunities to connect with professionals with similar professional interests and concerns.

Conferences — Year-round, HFTP produces a variety of face-to-face events where attendees can network.

Online — The Community@HFTP is a discussion platform where members pass information back and forth.

Chapters — Geographically-based, chapters meet frequently for education and to connect on a local level.

PROFESSIONAL DEVELOPMENT

HFTP is the only nonprofit that offers hospitality financial and technology conferences on a global level. Offered year-round, the programs are presented by industry thought leaders in professional development, best practices and skills training.

HFTP also offers a regular schedule of webinars via its ProLinks program. These are available live, allowing participants to interact with the speaker and other attendees. Webinars are also archived for later reference.

New Events

HFTP India CIO Forum • Udaipur, India

HITEC Amsterdam • Amsterdam, The Netherlands

Club Digital Learning Day • Online

CERTIFICATION

The Certified Hospitality Accountant Executive (CHAE) is the industry designation showcasing members competency in the area of accounting. Unlike other technology designations, the Certified Hospitality Technology Professional (CHTP) shows a dedication to hospitality and technology. Active CHAE and CHTP designees have reported higher salaries and various career advancement opportunities.

RESEARCH AND RESOURCES

HFTP supports a variety of professional resources, research reports and common practice guides on a variety of finance and technology subjects.

The HFTP Americas and Asia Research Centers not only provide comprehensive research, studies and reports on a variety of topics such as mobile payments, data security and accounts management; but, members can request their own research projects to meet their needs.

Online Information

PineappleSearch.com is a hospitality-specific search site that narrows results to industry relevant information.

HITEC Bytes aggregates the most current hospitality technology news for members to browse through.

HFTP News keeps members in touch with association updates, blog posts and content produced by HFTP.

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hsmai FOUNDATION
INSIGHTS ◆ RESEARCH ◆ SCHOLARSHIP

Demystifying the Digital Marketplace: Spotlight on the Hospitality Industry continues a long traditional of publishing excellence from the HSMAI Foundation. The Foundation was established in 1983 to serve as the research and educational arm of the Hospitality Sales and Marketing Association International. The Foundation's mission is to develop knowledge and insights for the future to fuel sales, inspire marketing and optimize revenue.

In recent years, the HSMAI Foundation has published reports and research on the most timely and critical topics, including:

- *Second Edition: The Evolving Dynamics of Revenue Management: A Comprehensive Revenue Optimization Road Map for Hotel Owners, Operators and Practitioners*
- *The Evolution of Sales*
- *Leadership Insights*
- *HSMAI Foundation Reports:*
  - *Hotel Revenue Managers Incentives Practice Research*
  - *Hotel Sales Incentive Practice Research*

FOUNDATION PARTNERS:

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USA TODAY
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TripAdvisor
Wyndham Hotel Group

SILVER:

J.D. Power
STR

The HSMAI Foundation today is focused on insights, research, and scholarship. To deliver relevant resources to leaders in sales, marketing, and revenue management, the HSMAI Foundation has partnered with organizations and companies such as AH&LA, STR, American Express, TravelClick, Pegasus, Vizergy, U.S. Travel Association, and others to create reports, 25 association white papers, scholarship programs, and an online clearinghouse.

The HSMAI Foundation wishes to thank all of the industry leaders from hotels and brands that helped in collecting the data that made this comprehensive analysis possible. In return, in the months and years ahead, the HSMAI Foundation will be offering even more insights into how hotel sales, marketing and revenue management professionals can apply the findings of this important study to their businesses, with the goal of finding the optimal channel mix for their properties.

PLEASE VISIT

www.hsmaifoundation.org to learn more about the HSMAI Foundation and to tap into all of the insights, research, and scholarship we have to offer.

IHG OWNERS ASSOCIATION

BETTER TOGETHER TO ENHANCE OWNER RETURNS

The IHG Owners Association represents the interests of owners and operators of more than 3,500 InterContinental Hotels Group® (IHG) properties in the United States, Africa, Australasia, Canada, Europe, Latin America, Mexico and the Middle East.

Established by Holiday Inn founder Kemmons Wilson in 1955, the Association is committed to representing our members by being their voice with IHG and communicating on their behalf about issues that affect them and the hotel industry as a whole. The Association also provides our owners with opportunities and resources to better educate themselves on topics that will help them and their businesses.

One resource that we truly feel is beneficial to our owners is the Demystifying the Digital Marketplace: Spotlight on the Hospitality Industry. The IHG Owners Association contributed to this report years ago. Our continuous support is a reflection of the Association's belief in the report's findings and how these discoveries can be beneficial to both our members and to all stakeholders in the hospitality industry.

We are confident and hopeful that this report will help spur conversation and enlighten readers. And, more importantly, equip all hotel owners and operators with the necessary tools that they need to better understand distribution trends and other important components that will help to ultimately increase their ROI.

Best Regards,

Don Berg
CEO, IHG Owners Association

Steve Ehrhardt
2016 Chair, IHG Owners Association

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Author's Biography

CINDY ESTIS GREEN

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Cindy Estis Green's career began in corporate marketing and senior operations roles for Hilton International. After starting up the data mining consultancy, Driving Revenue, and selling it to Pegasus Solutions, Ms. Green spent twelve years as managing partner of The Estis Group providing strategic marketing consulting to the hospitality industry. Co-author of the 2012 *Distribution Channel Analysis: A Guide for Hotels* and many other industry publications on the topic of marketing technology, Estis Green has been honored as one of the 25 Extraordinary Minds in Sales and Marketing, was inducted into the prestigious Hospitality Technology Hall of Fame and named as one of Cornell University's 90 Influential Hoteliers. She is currently a member of the HITEC Advisory Council, leads the AH&LA Consumer Innovation Forum, the European Hotel Forum, and holds a board seat for The Knowland Group and the Hospitality Financial and Technology Professionals (HFTP).

Ms. Estis Green launched Kalibri Labs in 2012, a next generation benchmarking platform for the digital marketplace evaluating hotel revenue performance. Using innovative big data techniques, Kalibri Labs helps hotels manage the cost of customer acquisition and optimize profit contribution. Estis Green holds a BS degree from Cornell University and an MBA from The American University.

MARK V. LOMANNO

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Mark Lomanno is a Partner and Senior Advisor at Kalibri Labs. In addition to his role at Kalibri Labs he also advises several start-up and venture capital firms in the hospitality and data space as a member of the Board of Directors and Advisors providing strategic direction and building industry relationships. Lomanno is the former President and CEO of Smith Travel Research (STR). Under his fifteen years of leadership, the company grew from a domestic U.S. firm to the most respected name in global hotel benchmarking. While at STR, he co-authored the 2012 study *Distribution Channel Analysis: A Guide for Hotels* with Cindy Estis Green.

Lomanno serves on the advisory board of the Center for Hospitality Research at Cornell University and University of Delaware's school of Hotel, Restaurant and Institutional management, is an active member in the Hotel Development Council of the Urban Land Institute and is a named Conti Professor at Pennsylvania State University. Lomanno also serves on the advisory board of The School of Tourism & Hospitality Management at Temple University, where he teaches a graduate level course "New Media and Distribution." Lomanno holds a MS in Marketing from LaSalle University and an MBA from Temple University.