

The Cost of Doing Business – OTA's (On line travel agents)

Hotel's like airlines conduct business in a complex distribution environment. The growing use of the Internet by travellers has created challenges in technically distributing their product and doing it cost effectively.

Is it a challenge? Does it need to be & have we created it through initial negotiations that now impact the entire industry on a massive scale?

OTA's emerged from the 2001-2002 downturn. In the aftermath of the 9/11 terrorist attacks, hoteliers eager to fill rooms any way they could jumped on the OTA bandwagon and of course this industry and the consumer preference of using it has exploded over the last 10-15 years.

Google Analysis shows travellers shop on 22 websites before booking. This gives them vast comparisons in one search rather than going direct to each properties website. In the case of hotels the transient market may not even know which hotel to look up (although we like to think our brand awareness is that strong often it is not).

Internet OTA's and third party booking sites provide a range of properties for the consumer on the one site. If you are not part of it then you are not visible. If you are not visible in the digital marketplace of today you are not booked.

The mindset of the future customer especially Gen Y have a lifetime of booking ahead of them and grew up with the internet integrated into their daily lives.

General practice in the travel industry has been for suppliers like airlines & hotels to bear most of the distribution costs. In most other industries a retailer acquires goods at a wholesale price then marks the item up to sell to its customers. That margin covers their expenses including distribution & their own profit. The wholesale price is set to meet the suppliers yield and profit targets.

OTA's can sell under two methods. The first is a retail model, where the hotel serves as merchant of record for the sale and the OTA serves as the agent, receiving a commission in exchange for referring the sale. This is usually called the Commission or Agency model. Booking.com typically sells under this model as do most traditional agencies.

Secondly is a wholesale model, where the OTA serves as the merchant of record for the sale, marking up a net rate provided by the hotel. The OTA profit is the difference between the net rate and the retail price charged to the consumer. This is commonly referred to as the Merchant model and is the predominant method employed by Expedia/Hotels.com and most tour operators for hotel bookings. Hotels participate in rate parity so they set the market price and rates are equal across all channels. This is the (Merchant SPM Model) and is also used by apple computers who sell its products to retailers at a wholesale price but they set the market price.

Without rate parity customer confusion would be rampant, with the introduction of tremendous market inefficiency surrounding a low price search process. Thank fully with

the advancement of technology pricing can be instantly changed at the discretion of the hotel and filter across channels.

Rate parity reduced market confusion by presenting clear consumer messages regarding pricing across hotels and third party channels and also enabled hotels and OTA's alike to offer best rate guarantees to consumers, confirming the integrity of their branding.

But not all merchant models are created equally and researching the value of each and its conditions is paramount.

A major benefit of OTA's to the industry is Visibility. Many OTA's have hundreds if not thousands of affiliate sites in addition to their own. When you offer inventory to an OTA essentially you are giving the inventory to the affiliate sites as well however to the hotelier the commission, collection and payment structures is no different to the larger OTA except that there are many more sites trying to promote your product. This adds value far beyond what the marketing dollars of any individual property could reach in terms of a global audience.

Hotels would have to spend a lot more money on search engine optimisation & marketing which OTA's do well on behalf of their different affiliates. In addition no marketing dollars are requested upfront and hotels only pay on the volume produced.

However OTA's can't survive without your hotel inventory & can the hotel survive without the OTA's? whilst there is no argument the marketing dollars spent (\$2billion from Expedia in 2012) to provide a global platform opportunity for your property to be seen is far more than an individual property could spend appears of great value but not if it is just converting business that would have booked anyway and not bringing additional volumes.

There is also the billboard effect of those customers that saw your property on an OTA site then looked at your website directly and booked. Hard to measure though.

They have really met a consumer need of convenience and the consumer will book this way as they don't care what the commission structures are behind the scenes. This platform is out there so they will use it.

Interestingly LCC Ryanair uses OTA's for majority of their reservations. They are large and have no doubt secured a favourable commission structure and gained the benefit of the global marketplace. However a limitation and frustration for airlines is the lack of presence of their ancillary product suite on the sites as the lowest price is all that is visible.

Moving forward it is essential to have an Internet Strategy & a good Revenue Management plan goes a long way –

- ✓ Commission structures currently might not be the most attractive for hoteliers so aside from negotiating more favourable commissions moving forward, current commissions if planned for and if inventory is properly disbursed to various distribution platforms with solid revenue management techniques in place then commission shouldn't be a major deterrent to conducting business.
- ✓ Resist deviation from Rate Parity in desperate times (such as after what occurred after 9/11 and the global financial crisis). By allowing deviation from rate parity

the Hotels lose all control over their retail pricing and will be aggressively undercut to shift share and drive volume by OTA's. In the reverse the OTA's could charge higher than hotel pricing as many consumers searching online may not check the rates directly with a property.

- ✓ Monitor all the sites that you give inventory to and conduct analysis on the ones you don't
- ✓ Drill down to see what channels are generating the most profit
- ✓ Know your markets and know your demand and consumer booking behaviour
- ✓ Revenue Manage your inventory
- ✓ Factor in the Billboard effect (percentage of business that will view your site directly after finding you on an OTA site. Offer incentives to book directly.
- ✓ Approach future deals & re negotiations strategically and protect your margins. Ideally commissions and net rates should be a % of the BAR rate sold which fluctuate in alignment with a changing BAR rate based on demand. This protects property margins especially when rates are low and keeps things in proportion.
- ✓ View the relationship with OTA's as a cost of business and was it marketing dollars well spent? A study by Cornell School of Hotel Administration states the theory that listing inventory with an OTA helps market the property thus increasing the likelihood that consumers will book a room.
- ✓ Ensure that the agreements meet the companies yield & profit targets & know the OTA model inside and out. You don't want to finish up with the OTA running your business and holding you to ransom.
- ✓ Analyse the potential value and know your market manager. An OTA market Manager should analyse trends across markets
- ✓ Ask for opportunities, placement and advertising & negotiate these into agreements. This of course is another way OTA's further increase commissions as properties can pay for position. The better position the more likelihood you will be booked over someone else.
- ✓ OTA's are a cornerstone of your overall distribution strategy and understanding how to use them affectively can help grow RevPAR and market share.
- ✓ You can factor in the marketing expense as it can be measured. Hotels pay for what was booked.
- ✓ OTA's are a marketplace to reach millions of consumers however the models vary greatly so do your analysis and be strategic.
- ✓ Hotels & airlines should save the best deals for their customers directly. Be creative.

The internet is not going away; the world is a digital market. Embrace it, take back control, be strategic in negotiations & Revenue Manage!