

# HeBSdigital

## The Internet: Hotelier's Best Ally or Worst Enemy?

What Went Wrong with Direct Web Distribution in Hospitality? | By Max Starkov

The Internet, which is the greatest direct-to-consumer medium ever created, should prove a fertile ground for the direct sales efforts of proactive, Internet-savvy hotel marketers. And yet, the sad truth is that the majority of hoteliers, far from realizing and exploiting the Web's true potential, often fall prey to the Web-proficient online intermediaries.

## Background

In the offline world hoteliers are among the smartest direct marketers. A recent Bear Stearns survey confirmed the findings of numerous previous market studies and found that over 75% of all room bookings are direct-to-consumer. Here is an approximation of the room bookings by distribution channel:

- Hotel direct: 65%-70%
- In person: 5% -10%
- Travel agent: 10%-15%
- Online: 5%-10%
- (Bear Stearns, 2002)

In the online world, hotels are far less effective in their direct-to-consumer sales efforts. This year, less than 54% of online hotel bookings will be direct sales. Hoteliers have difficulty maintaining market share and finding the right formula to deal with online discounters and intermediaries. The lack of comprehensive Internet strategies, ineffective eDistribution efforts and the explosion of the "merchant model" (online discounters such as Hotels.com) are partly to blame for the current situation.

PhoCusWright projects that hotels will not be able to increase market share as new online travelers are lured by discounted rates and ability to comparison-shop on the main intermediary websites. Hotel suppliers' market share fell from 56% in 1999 to 54% in 2001 and it will take extra efforts to maintain this share in the future.

1999 2000 2001 2002 2003

Hotel Websites: 56% 55% 54% 54% 54%

Online Agencies: 44% 45% 46% 46% 46%

(2001 PhoCusWright)

Obviously hoteliers have not been able to transfer their offline direct sales expertise to the Web and we are witnessing a new disparity emerging on the Web: Internet-savvy vs. Internet-less savvy players.

What Went Wrong on the Web?

We believe that the current situation is extremely dangerous for the hotel industry and, unless hoteliers do not adopt comprehensive direct Web distribution strategies, will have long-term negative repercussions. Here are its main reasons for the current state of affairs:

- Lack of understanding among hoteliers on how the Internet and online distribution works, a clear advantage for the online intermediaries.
- Hospitality is way behind the other travel sectors in adopting the Internet as a mainstream distribution medium. The weak economy and 9/11 found many hoteliers unprepared (financially, technologically, e-Knowledge-wise) to deal with the explosion in online bargain-hunting and bookings.
- Online discounters/merchants exploited extremely well the desperation in the hospitality industry after 9/11. Hoteliers, looking for a quick fix for their eroding revenues, turned to the discounters' "free" services. Most hotels didn't realize, or chose to ignore, the long-term brand erosion and downward rate pressures that those services bring. In the best scenario, these hoteliers achieved acceptable occupancy rates at the expense of much lower ADRs and permanent damage to their rack rates.

What is the situation in the other travel sectors?

Travel suppliers in the other travel sectors are well ahead of hoteliers in aggressively adopting direct online distribution. All major airlines and car rental companies have embraced the Internet as their main distribution medium and have been pushing online and non-GDS distribution for quite some time now. The airlines in particular have become experts in direct-to-consumer Web distribution. Southwest Airlines' online revenue exceeded \$2.19 billion in 2001, followed by Delta with \$1.8 billion. JetBlue generates 65% of its revenues from its website, [www.jetblue.com](http://www.jetblue.com) and is one of the few profitable airlines today.

Airlines are the most determined among all travel suppliers to sell directly to online consumers and are competing formidably with online intermediaries to dominate the Internet. Unlike the offline world, where only 35% of bookings are direct sales and 65% come from agency sales, online direct sales will constitute more than 62% of all air online bookings in 2002 (if we include the direct sales champion Southwest Airlines) (PhoCusWright, IDC). The airlines even established two direct-to-consumer services, Orbitz.com and Hotwire.com, to compete directly with the major online intermediaries.

By adopting the "Direct Web Distribution Model" i.e. direct Internet consumer sales, the major airlines were able to enhance significantly their distribution strategy. The abolishment of travel agency base commission by the major airlines earlier this year was not only a cost-cutting measure, but also a direct result of the newly gained realization that the Direct Web Distribution Model works.

Online distribution in the airline sector is expected to increase 90% in 2002 over 2000 and contribute more than 15% of the airline total passenger revenue this year and more than 28% by 2003 (PhoCusWright). Car rental companies expect 15% of their sales to be online in 2001 and 25% in 2003.

What is the Status of the Online Hospitality Marketplace?

Hoteliers are slowly beginning to realize that online distribution is changing the "classic" distribution spectrum. What is the situation in hospitality today? This year 8%-10% of all revenues in hospitality will be generated from the Internet. Four years from now the Internet will contribute 16%-18% of all hotel bookings. Jupiter estimates that while online travel will grow at an annual rate of 23% from 2000 through 2006, online revenues specific to lodging will grow over 26% annually during the same period, from \$3.8 billion to \$15.5 billion.

Hoteliers are beginning to like what they see: online distribution cuts costs, attracts affluent customers and lessens the dependency on more traditional and expensive channels. Jupiter Research estimates that the size of the online hospitality market will exceed \$6 billion in 2002, up from \$4.1 billion in 2001, and will reach \$7.9 billion in 2003. Some hotels already generate 20%-30% of their bookings from the Internet.

Over 192 million North Americans are active Internet users (Nielsen) and 40 million of them have already purchased travel online. The Internet offers vast, interactive, rich media and most importantly, a growing distribution market.

Why Move Away From the Traditional Distribution Model?

Distribution of hotel inventory via today's main distribution channels, GDS/travel agent and call center/reservation office, is inefficient and expensive, especially in light of the current weak economy. Focusing only on the traditional distribution channels will result in lower occupancy rates, higher distribution and operational costs.

Here are just a few examples of the cost savings of online vs. offline bookings (PhoCusWright):

- Hilton: saves \$25 online vs. travel agency booking
- Hyatt: cost of a Web booking is \$3 vs. \$9 of a call center booking
- 6 Continents: cost of a Web booking is \$3.20 vs. \$8 of a call center booking
- Marriott: cost of a Web booking is \$3.50 vs. \$8 of a call center booking

A typical GDS hotel booking, at the average GDS ADR of \$117.07 and a weighted average stay of 1.945 nights (TravelClick Q2 2002 data), would cost the hotel \$24. A booking via a call center/reservation office would cost between \$8 and \$12 (direct and indirect costs). A direct consumer Internet booking would cost \$3-\$3.50.

#### Case Study:

The following case study of a Hotel Management Company with 20 branded hotels in California, clearly shows the higher cost of offline/GDS vs. direct online bookings (as percentage of booking revenue):

	GDS	Direct
Travel Agent	10%	0%
GDS	\$5	\$0
CRS	\$5	\$3
Total Cost:	\$36	\$3
Total in %:	14.4%	2.0%

All travel suppliers and hoteliers are looking for alternative and less expensive distribution for their perishable inventory. The Internet is a viable alternative. Traditional channels are not only prohibitively expensive, but structurally unable to handle group bookings and block allotments, support special accounts, hotel packages, last room availability, rich media, etc.

#### How to Deal Successfully With the Online Intermediaries

A commonly asked question by hoteliers today is "How can we deal successfully with the online intermediaries?" Brand and price erosion have become commonplace on the Web (See this author's article "Brand Erosion or How Not to Market Your Hotel on the Web"). One can even book the landmark Waldorf Astoria on Hotels.com at steep discount. Some independent and franchised hotels derive 20%-30% and even more of their total revenues from online discounters and intermediaries. We even know of a hotel in New York City that generates 40% of its revenues from the online discounters.

Indeed, the online intermediaries and discounters that operate in the merchant model have become the 800-pound gorillas of online distribution. While hoteliers are barely keeping afloat, some of these services have reported record earnings in the quarters since 9/11/01. For example in Q2 2002, Expedia sold 2.1 million merchant room nights and reported 300% growth of its merchant revenue compared to the same period of 2001. Hotels.com sold 1.9 million merchant rooms in Q2 2002, up 82% from Q2 2001.

There is nothing wrong with using online discounters to upload your distressed inventory. But it is very wrong to turn these online services into your primary and, in many cases, only Web distribution channel. Why? If your hotel has not implemented a robust Direct Web Distribution Strategy as discussed above, your hotel will appear on the Web only through your discounted rates offered by the online intermediaries and merchants. In other words, the Internet users will always "bump" into your discounted rates and nothing else.

Therefore, as far as the Internet consumer is concerned, these discounted rates are de facto your published hotel rates on the Web. The result is a major brand erosion and price dilution with catastrophic future repercussions. If consumers consistently find on the Web only your discounted rates in the \$129-\$139 price range, how can your hotel convince them to pay the \$189-\$189 rack rates -- online or offline?

So how can hoteliers deal successfully with the threat presented by the online discounters and intermediaries? By taking hold of their Cyber-destiny and by adopting aggressive programs to:

- Implement a comprehensive Total Online Distribution Strategy that ensures priority of the direct-to-consumer online distribution model and balances favorably the direct and indirect online channels
- Beat the online discounters at their own game.

What is the Total Online Distribution Strategy?

To deal better with today's online travel challenges, hoteliers must adopt a comprehensive Total Online Distribution Channel Strategy, which turns the direct-to-consumer distribution model into the centerpiece of hoteliers' Internet strategy and optimizes the balance between the Direct and Indirect Web Distribution Models.

The Internet is all about positioning your hotel website at all "touch points" of interaction with the potential online travel customer. If the online traveler looks for accommodations in your destination (e.g. Boston, Chicago, etc), he/she should be able to find:

- First: your website through the search engines, your destination-focused website strategy, your destination Web initiatives, pay-per-click services, online travel and hospitality directories and indexes, your website affiliates, destination portals, CVB websites, and
- Second: your inventory through third-party online channels beyond your website: major online agency model travel services, opaque rate services like Hotwire, incoming operators and DMOs, as part of online packages offered by tour operators, impulse-purchasing services like Site59, and yes, finally, via selected discounters/merchant services.

In other words, when looking at the direct vs. indirect distribution ratio mentioned above, it becomes obvious that in at least 54% of the cases, the Online Bookers should end up and transact on the hotel website in order for the hotel or major brand to be in par with the national averages.

Spheres of Web Distribution Influence

As mentioned, the Internet has created the ideal medium for direct-to-consumer distribution.

Direct distribution over the Web is a very complex undertaking that involves a variety of online channels, business models, marketing approaches and sales techniques. Therefore we call the Internet strength of a particular hotel/hotel brand "Sphere of Web Distribution Influence", which we define as the percentage of Direct vs. Indirect online distribution influence, presence and exposure of the hotel company on the Web. The higher the Direct Web Sphere of Distribution Influence, the less dependence on online intermediaries. The goal of every proactive hotelier is to exceed the industry national average of 54:46.

The Direct Sphere of Web Distribution Influence is all about benefiting from the Internet as the greatest direct-to-consumer distribution medium. Direct online distribution should become the centerpiece of any hotel brand's Internet strategy. Here are some of the direct distribution channels, business models, marketing programs and promotional techniques that share the same commonality: the online traveler ends up on the hotel website and transacts there:

- Hotel website

- Property pages within a major brand website
- Hotel-sponsored destination Web initiatives, such as destination portals, sections, pages
- Search engines (e.g. MSN.com)
- Destination-focused search engine strategy and initiatives
- Online loyalty program initiatives
- Affiliate programs
- Lowest price guarantees
- Pay-per-click marketing
- E-mail marketing
- Travel and hotel directories and portals
- Last minute and impulse purchase services
- Online CVB Initiatives

The Indirect Sphere of Distribution Influence includes all those intermediary online services and distribution channels where the online traveler has access to the hotel inventory and descriptions and transacts on the intermediary's website:

- Agency (Commission-based) Model Services\* Opaque Rate Model Services
- Merchant Model Services
- Online Event and Meeting Planner Services
- Online leisure travel services
- Internet reservation systems
- Online wholesalers and consolidators
- Dynamic pricing services
- Foreign Online Services

The three main indirect business models for online hotel bookings are the Merchant model services, Agency (Commission-based) Model Services, and Opaque Rate Model Services.

For example Hospitality eBusiness Strategies has identified 60 major online distribution channels that a proactive hotel company can utilize to position its offering and benefit from these services' promotional efforts and robust Internet traffic.

Ideally hoteliers should aim to position themselves at all "points of contact" with potential Internet travel bookers. Utilized expertly, the Total Online Distribution Strategy and its two components, Direct and Indirect Web Distribution, can produce immediate results, while keeping the hotelier in full control of its brand, pricing strategy and revenue management techniques.

#### Direct Web Distribution Model

The direct-to-consumer model should become the foundation, the main focus of any hotelier's online distribution strategy. Why direct distribution is so important? First of all, the Internet is the ultimate "Direct Distribution Medium". It provides the hotel with long-term competitive advantages and lessens dependence on intermediaries, discounters or traditional channels that are about to become obsolete. It also:

- Puts the hotel in control of its Internet presence and exposure\* Prevents brand and price erosion
- Is the shortest path to establishing interactive relationships with your customers
- Provides long-term opportunities to benefit from the lifetime customer value
- Is the cheapest way to distribute hotel inventory

Let's consider the case study below, demonstrating clearly the advantage of Direct Web Distribution, followed by the agency model services.

## CASE STUDY

Here is the experience of one Hotel Management Company in utilizing various online distribution channels:

Distribution Model: / Average Rate:

Average Direct Web: / \$110.00

Average Indirect Web: / \$76.80

Including:

- Agency Model \$102.15 (Worldres, TurboTrip, etc)
- Merchant Model \$75.15 (Expedia, Hotels.com, etc)
- Opaque Model: \$58.55 (Priceline, Site59, etc)

Here is a brief overview of the main aspects of the Direct Web Distribution Model:

### Website Optimization

Website optimization deals mainly with two key issues: making the website more user-friendly (navigation, booking technology, customer support, eCRM features, etc) and preparing the website for the search engines (destination-focused website optimization, domain name strategy, target keywords, meta tags, description tags, etc):

- Domain name strategy
- Enhance navigation by introducing intuitive navigation map
- Improve "bookability" of website to increase conversion rates
- Introduce eCRM functionality and improve customer support
- Introduce customer email capture
- Search engine optimization: copy with relevant target keywords, relevant page titles, description tags and meta tags
- Develop Destination Web Strategy to leverage the popularity of the destination

### Destination Web Strategy

This is one of the most effective eMarketing strategies in hospitality. A Destination Web Strategy is a corporate-based initiative that leverages the popularity of the destination for the benefit of a particular hotel or a cluster of local properties. The benefits of this strategy is not only benefiting from the popularity of the destination, but also cross-selling of multiple properties within the destination, reducing overall marketing cost (creation, development, maintenance, and search engine submissions), etc. There are four different models for implementing a Destination Web Strategy.

### Search Engine Strategy

As purchasing behavior continues to shift from offline to online, one of the most effective and often underutilized approaches to building a competitive strategy online is through the use of search engines. Numerous surveys show that 85% of Internet users rely on search engines to locate information on the Web (e.g. Yahoo, Google, AltaVista, etc). A common mistake made by hoteliers is to think that a search engine optimization vendor (SEO) can do miracles for the hotel's stale, user-unfriendly website. These "quick-fix" SEO efforts always turn out to be a futile exercise because such SEO initiatives never work. Only after thorough Website Optimization and Destination Web Strategies are implemented, as

described above, should a hotel undertake a robust and effective destination-focused search engine strategy.

#### Pay-Per-Click

Pay-per-click (PPC) or Pay-for-performance services as they are sometimes known have become an extremely popular and smart way to position your hotel brand and local properties as "Sponsored Links" or enhanced listings on top of the search engine results. This is a high growth market: 400% increase in PPC use 2001 vs. 2000 (IAB/PWC). In the recent DoubleClick survey (June 2002), 57% of respondents identify keyword search/PPC programs among the online advertising vehicles used by US marketers.

#### Email Marketing

Email marketing is a crucial component of the hotel Direct Web Distribution Model. The shift toward online purchasing suggests that the website is becoming a key point of entry to establish interactive relationship with your customers and capture client email profiles. Email can create direct revenue opportunities with past, present, and future customers. Email marketing increases revenue opportunities throughout each customer's purchasing life cycle. An estimated 30 billion permission-based email messages were sent in 2001; a number that will grow to 150 billion in 2005 (Winterberry Group). For more details see this author's article "Total Email Marketing Strategy in Hospitality", co-written with Jason Price.

#### Last-Minute Travel Directories

The spontaneous travel market includes more than 25 million Americans (PhoCusWright, 2000). One-third of online travel consumers plan trips within two weeks of departure and one-in-five online consumers plan trips within one week of departure (Travel Industry of America-TIA, 2001). One good example is [www.TripValue.com](http://www.TripValue.com) launched earlier this year, which already boasts 2 million unique visitors per month and offers "Specials by Hotels" feature that links back to the hotel website.

#### Conclusion

Whether you are an independent or branded hotel, a major hotel chain or hotel management company, you can stay ahead of your competitors and capture new market share with an effective Direct Web Distribution Strategy. The Internet is the ideal direct-to-consumer medium and many travel suppliers have adopted the direct distribution model as the centerpiece of their Internet strategies. An experienced eBusiness hospitality consultancy can help you navigate and utilize the Internet to its fullest potential at minimal cost to you, with quick turnaround, and by utilizing sophisticated tools available only to the major online players.

Implementing this strategy does not have to be an expensive proposition or a lengthy process. For example, Hospitality eBusiness Strategies' highly successful Internet strategy consulting services include 30-day implementations even for its Direct Web Distribution and Total Online Distribution Strategy packages.