

HOTEL yearbook 2012

Scenarios for the year ahead

Choice CEO Stephen Joyce :
Ideas, insights – and wishes – for 2012

Is your hotel ready for the Chinese?

The 2012 outlook for key hotel markets :
30 exclusive country reports from Horwath HTL

Next year's IT challenges :
What will they be? How much will they cost?

Legal issues facing us in Europe, China and the USA

This excerpt from the Hotel Yearbook 2012 is brought to you by :



ECOLE HÔTELIÈRE DE LAUSANNE

The Ecole hôtelière de Lausanne (EHL) is the co-publisher of The Hotel Yearbook. As the oldest Hotel School in the world, EHL provides university education to students with talent and ambition, who are aiming for careers at the forefront of the international hospitality industry. Dedicated to preparing tomorrow's executives to the highest possible level, EHL regularly adapts the contents of its three academic programs to reflect the latest technologies and trends in the marketplace. Since its founding in 1893, the Ecole hôtelière de Lausanne has developed more than 25'000 executives for the hospitality industry, providing it today with an invaluable network of contacts for all the members of the EHL community. Some 1'800 students from over 90 different countries are currently enjoying the unique and enriching environment of the Ecole hôtelière de Lausanne.



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Horwath Hotel, Tourism and Leisure consulting are the world's number one hospitality consulting organisation, operating since 1915. Horwath HTL are the industry choice; a global network offering complete solutions in markets both local and international. Through involvement in thousands of projects over many years, Horwath HTL have amassed extensive, in-depth knowledge and understanding of the needs of hotel & real estate companies and financial institutions.

Horwath HTL are the world's largest consulting organisation specialised in the hospitality industry, with 50 offices in 39 countries. They are recognised as the pre-eminent specialist in Hotels, Tourism and Leisure, providing solutions through a combination of international experience and expert local knowledge.



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With an exclusive focus on global hospitality and tourism, Hsyndicate.org (the Hospitality Syndicate) provides electronic news publication, syndication and distribution on behalf of some 750 organizations in the hospitality vertical. Hsyndicate helps its members to reach highly targeted audience-segments in the exploding new-media landscape within hospitality. With the central idea 'ONE Industry, ONE Network', Hsyndicate merges historically fragmented industry intelligence into a single online information and knowledge resource serving the information-needs of targeted audience-groups throughout the hospitality, travel & tourism industries... serving professionals relying on Hsyndicate's specific and context-relevant intelligence delivered to them when they need it and how they need it.



CORNELL UNIVERSITY SCHOOL OF HOTEL ADMINISTRATION

Founded in 1922, Cornell University's School of Hotel Administration was the first collegiate program in hospitality management. Today it is regarded as one of the world's leaders in its field. The school's highly talented and motivated students learn from 60 full-time faculty members – all experts in their chosen disciplines, and all dedicated to teaching, research and service. Learning takes place in state-of-the-art classrooms, in the on-campus Statler hotel, and in varied industry settings around the world. The result: a supremely accomplished alumni group-corporate executives and entrepreneurs who advance the industry and share their wisdom and experience with our students and faculty.

Hotels v. Online Travel Agents : whose side are you on ?

AS OTAS (ONLINE TRAVEL AGENTS) HAVE BECOME BIGGER AND MORE POWERFUL, THEY HAVE NOT ONLY DRAWN FIRE FROM THE HOTEL INDUSTRY BUT HAVE ALSO BEEN SCRUTINIZED IN TERMS OF THEIR IMPACT ON COMPETITION, AND THIS WILL CERTAINLY REMAIN A HOT TOPIC IN 2012. WE ASKED **TOM PAGE**, HEAD OF THE HOTEL & LEISURE GROUP FOR LONDON-BASED **CMS CAMERON MCKENNA LLP**, TO GIVE HOTEL YEARBOOK READERS AN OVERVIEW OF THE ISSUES.

Recessions tend to focus the minds of hotel operators. Squeezed margins across the industry make hoteliers re-examine where their revenue comes from and where their costs are going. In many cases, the hoteliers' sights have set on the Online Travel Agent (OTA), the long-time savior and scourge of the hotel industry. Estimates from PhoCusWright show OTAs delivering 46 % of all revenue to hotels in 2010, with Expedia and its affiliates being the largest of these with a 44 % share of the OTA market. Research by the Cornell School of Hotel Administration on a sample of bookings through IHG's own website showed that 75 % of people booking had previously visited an OTA prior to booking and 62 % had specifically visited Expedia.

OTAS UNDER ATTACK

There is no doubt then that OTAs are an integral part of the industry and vital to any hotel operator's success. Yet they have recently come under attack, including a UK investigation into potential illegal price-fixing. Yet it was not complaints by hotel operators that triggered the investigation, but a complaint from a smaller OTA.

Of all the grievances aired against OTAs, the most frequent is the use of «rate parity» agreements. OTAs can impose penalties upon hotels for not enforcing rate parity including financial penalties, reducing the search ranking or even removing the hotel from the website altogether. Other grievances include :

- «Last room availability» : forcing hotels to sell discounted rooms through OTAs that could have sold on a non-discounted basis
- Unfair search rankings : rooms that are least discounted will appear last in the search rankings in any given location
- OTAs advertise discounted rates that are not available or outbid hotels for keywords on search engines to divert search traffic to the OTAs' sites rather hotelbrand.com.

THE OTAS' PERSPECTIVE

The OTAs claim that hotels are under no compulsion to sign up with the OTAs and that if they do not like the terms, they can

withdraw from that website. They also point out that operators generally set the rates on the OTAs' websites via a direct feed from their own central reservations systems (CRS). As a result, it is the operators that are setting the price to consumers, not the OTAs.

UNDERSTANDING THE COMPETITION LAW ISSUES

From a legal perspective, the analysis gets difficult, as you need to understand the difference between the merchant model and the retail model. Under the retail model, the OTA simply acts as agent and takes a commission – no different from when a travel agent books you a holiday or an estate agent sells you a house. Competition law in the UK and many other countries does not affect such agency relationships – there is no resale. Under the merchant model, the OTA acts more like a traditional retailer, buying a product from a supplier, adding a mark-up and re-selling the product at the marked-up price.

ILLEGAL RESALE PRICE MAINTENANCE

Generally, if a supplier dictates the price at which the shop must sell their goods, the arrangement could be vertical resale price maintenance, prohibited by European law. We believe this rule is the focus of the UK investigation. But there are factors specific to the hotel sector which may make it difficult to apply the rule :

- It is only the merchant model which can be prohibited in terms of resale price maintenance, since only in that model does the OTA re-sell the product.
- In real terms, for all concerned, both models are comparable. In both models, hotels tend to determine prices offered by OTAs to consumers, who do not know how OTAs are remunerated. It is hotels that actually deliver the service to the consumer, not OTAs.
- Turning to the underlying purpose of competition law, it is difficult to see how consumers are significantly affected. Rate parity affects the rooms of one particular hotel, not of competing hotels. Hotels operate in a very competitive environment and cannot maintain artificially high prices.
- So if there is no difference to consumers between the retail and merchant models and no other form of price-fixing, is it



logical that one model can be prohibited by competition law and the other not?

From our perspective, we do not believe that rate parity by itself should be considered illegal price-fixing, especially where hotels themselves set the rates seen by consumers.

HOW IS THE HOTEL INDUSTRY RESPONDING?

Hotel operators have perhaps been guilty in the past of being naïve in allowing the larger OTAs to dictate terms and move the industry from a retail model to a merchant model. OTAs have exploited their strong bargaining position and purchasing power to increase their margins and fund their large online marketing budgets to capture ever greater market share.

Operators are now fighting back by increased marketing through direct online sales and less dependency on OTAs. The hospitality industry representative body, HOTREC, has published its «Benchmarks of fair practices for Online Travel Agents» that sets out its 20 points on how OTAs can operate fairly and competitively for the benefit of hotels, intermediaries and consumers, to encourage fairer behavior. We would like to see this more widely recognized and adopted.

But as powerful as the OTAs have become, they are still entirely dependent upon the operators for product. Withdrawal of a large operator's room stock will cost an OTA millions of dollars in lost revenue. Savvy operators, such as IHG and Choice, have been willing to use their own negotiating strength and withdraw product until sensible terms can be agreed. But playing a game of bluff when both sides could lose millions is a risky game and not for the faint-hearted.

BENEFITTING FROM OTA ONLINE MARKETING SPEND

It is easy to think that the OTAs are making super margins at the hotel industry's expense, but the larger OTAs have succeeded through intense marketing. Leaked Google documents in 2010 showed that Expedia and Hotels.com together spent over \$9.2 million in one month on Google advertising alone. The hotel industry has benefitted from this massive online marketing spend. But the ubiquity of Expedia means that all hotels and operators have to be on it to compete and the benefit of that marketing spend for one hotel over its competitor is lost. It is possible that the marketing spend has increased revenues for the whole hotel industry and improved consumer information and choice, but this is almost impossible to measure.

The entry of Google itself into the travel sector will again change the dynamics of online distribution and marketing and provide further challenges for operators to determine the best online distribution strategies.

UNDERSTANDING OTA JARGON


Merchant model: OTA sells the room to the customer and pays an agreed net rate (ie after deducting its margin) to the hotel.

Retail model: OTA takes booking as agent for the hotel and hotel pays OTA a commission on the gross rate received from the customer.

Expedia and affiliates: includes Hotels.com, Hotwire.com, Venere.com and TripAdvisor.

Rate parity: the practice of maintaining a single room rate available to consumers across all distribution channels.

Last room availability: allowing OTAs access to all available rooms, not just a limited allocation. ■



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