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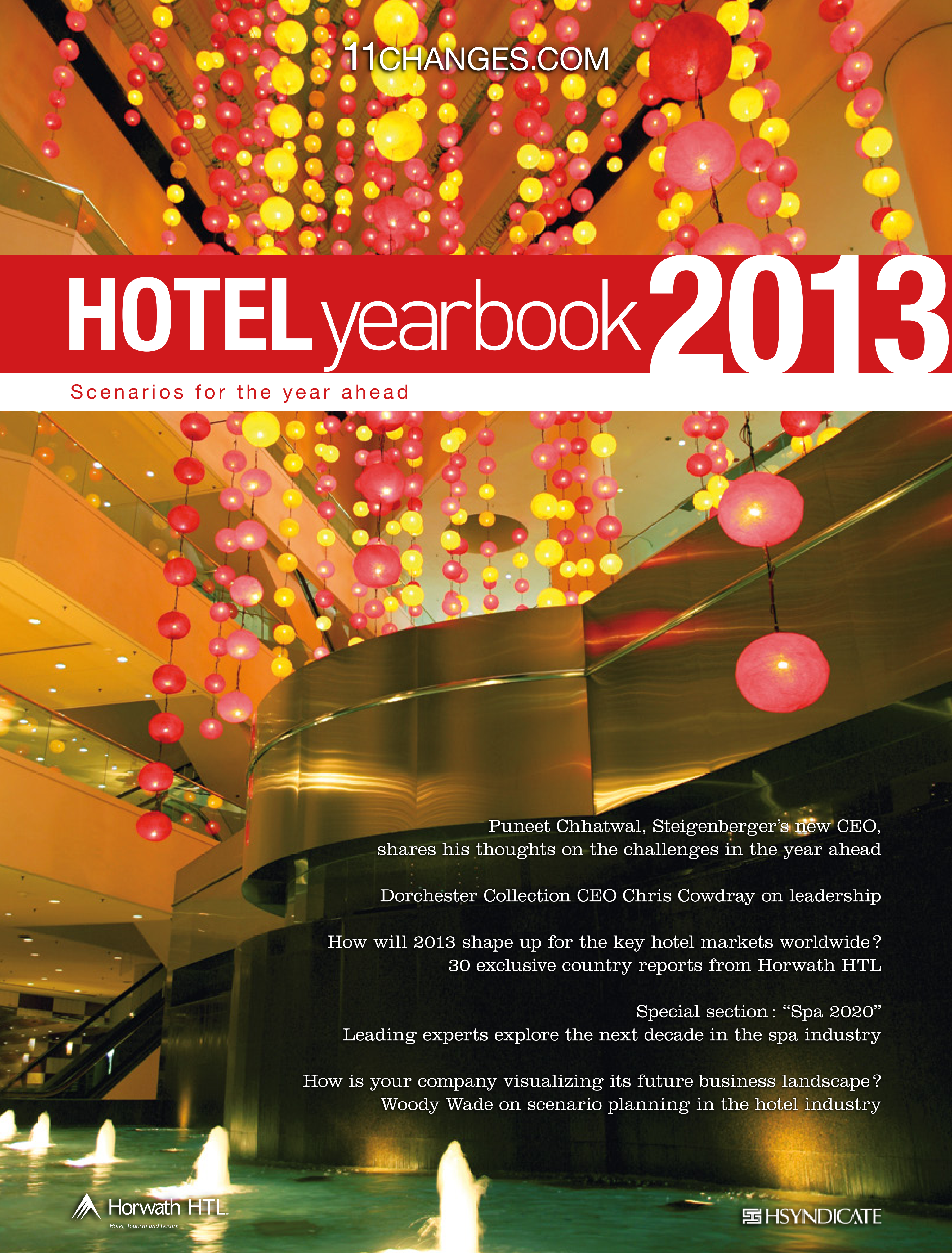
# HOTEL yearbook 2013

Scenarios for the year ahead



Puneet Chhatwal, Steigenberger's new CEO, shares his thoughts on the challenges in the year ahead

Dorchester Collection CEO Chris Cowdray on leadership

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Hotel, Tourism and Leisure

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# This excerpt from the Hotel Yearbook 2013 is brought to you by :

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# Online Travel Agencies: the empire strikes back?

WHAT CAN THE HOTEL INDUSTRY EXPECT TO SEE IN THE RAPIDLY EVOLVING OTA ARENA IN 2013? WE ASKED **PROF. PETER O'CONNOR,** THE ACADEMIC DIRECTOR OF THE MBA IN HOSPITALITY MANAGEMENT AT FRANCE'S PRESTIGIOUS **ESSEC BUSINESS SCHOOL** AND A SHARP OBSERVER OF THIS MARKET, FOR HIS THOUGHTS ON THE COMING YEAR'S POSSIBLE DEVELOPMENTS.

The hotel online distribution landscape has changed significantly over the past few years. Online channels have become vitally important, with the vast majority of today's customers making their travel plans online, and a corresponding positive effect on online booking levels. In the US hotel sector, online sales can now account for over 50 % of a typical hotel's room revenue. Although other parts of the world lag considerably in terms of online penetration, figures of 35 % of bookings flowing through online channels are not unusual for European hotels, with significant further growth certain in the short run.

However, a bone of contention for many hotels is the source of their online bookings. Within the highly consolidated US market, hotel chains have managed to leverage their brand power, technical expertise and deep pockets to ensure that the majority of electronic bookings flow through their direct "brand.com" websites. In Europe, where the market is more fragmented and global chains have much less presence, the proliferation of small and independent properties means that the majority of online hotel bookings flow not directly but through one or another of the various Online Travel Agents (OTAs).

Hoteliers have traditionally had a love/hate relationship with the OTAs. Although grateful for their business when times are bad, most hoteliers begrudge the "outrageous" commissions they pay for bookings, as well as complaining vocally about unfair competition as the OTAs skilfully position themselves between the hotel and the customer.

## OTAS ARE GOOD FOR YOU

To be clear: OTAs do add value. Using their electronic marketing expertise, they help hoteliers sell more rooms, allowing them to reach customers and markets that would be otherwise impossible. OTAs deliver heads-in-beds and do so on a totally pay-per-performance basis. In effect, they continuously market the hotel property (the so-called billboard effect) to a global audience, but only get paid if they manage to complete a sale by making a booking.

And even though OTAs are perceived as expensive, trying to drive similar levels of business directly would necessitate major investment on the part of the hotel in search engine positioning, website optimization, not to mention booking engine and credit card fees – all of which would quickly make the 18 % to 25 % paid to an OTA look like peanuts.

## BIGGER AND MORE POWERFUL

The distribution challenge currently facing the hotel sector is therefore not the presence of OTAs per se in their online distribution mix. In fact, in today's highly competitive world, hotels need to accept OTAs as an essential partner in their distribution process. The real issue is that, as a result of accelerated growth and strategic acquisitions, certain OTA players have become so big that they have started to dominate the market, leveraging their market size to effectively dictate terms to hotel suppliers and customers alike.

At the European level, this is currently happening with industry giants Expedia Inc. and Booking.com, both of whom are major suppliers of business to the majority of European hotels. Recent analysis from Nomura claims that these two companies collectively control over 65 % of European indirect online hotel sales, although certain other, more regionally focused, companies (particularly HRS/hotel.de) do have significant critical mass in particular markets (in this case Germany). If hotels want to profit from the phenomenal growth in the online sale of hotel rooms, they have to do business with one or more of a very small number of highly influential (or should we say "dominant") companies.

Unfortunately, abuse often goes hand in hand with dominance. Facing increased regulatory scrutiny in both the UK and the US in relation to allegations of price fixing, Expedia Inc. is trying to transform its previously precious merchant model by push suppliers into accepting an agency model even though ultimately, the hotel will end up paying a higher price for each reservation delivered.

Similarly, Booking.com, previously regarded as the most supplier-friendly of the OTAs, has started to dictate far more stringent terms and conditions to its hotel suppliers as it has grown in power. For example, the company has started recently

restricting hotels' access to previously available guest contact details, in effect ensuring that the customer's relationship is with the OTA rather than with the hotel itself. In addition, Booking.com has now started retaining cancelled room inventory to ensure that these rooms are subsequently resold through the system and that it receives its commission.

However, it is regional player HRS that has so far been the most blatant in terms of (ab)using its market position. Shortly after its takeover of competitor hotel.de, which in effect gave it control over nearly two-thirds of the German online hotel market, the company calmly announced that not only would it charge hotels a higher commission in the future, but if a company wanted to be distributed through the system, it had to provide both best available rate and last-room availability. Anyone who was not willing to comply could take their business elsewhere.

**CAN WE EXPECT ACTION IN 2013?**

As consolidation continues in the online travel space, with smaller companies being swallowed up by the major players, such dominant behavior is likely to accelerate. How then can hoteliers battle this like-it-or-lump-it approach? Given their market power, the only way that OTAs will concede is if they are forced to do so. And there are basically two ways to accomplish this – industry pressure or regulatory action.

The hotel industry is far too fragmented, however, to be able to organize the concerted effort needed to pressure such powerful companies. Unlike the airline sector, for example, even when considered together, the hotel chains control much too small a percentage of room inventory to be able to challenge current business practices. In the extremely unlikely event of a boycott, the OTAs could simply bypass protestors and focus on those not participating in the action. Past experience has also shown that hoteliers are not good at cooperating for the common good – a fact evidenced by the lack of a global lobbying organization on behalf of the sector.

And unfortunately, regulatory action also seems unlikely. Recent mergers in the OTA sector have been scrutinized by the competition authorities. Although subsequently allowed, some hope is offered by the closer examination that regulators seem to be paying to how the sector operates, with the aforementioned price fixing and anti-competitive behavior cases sure to have a long-term effect.

Tough love from the OTAs thus looks likely to continue, placing hotels in an increasingly hostile situation, particularly in 2013. To survive, hotels need to become much more proactive about managing their portfolio of distribution channels. In particular, they need to develop and cultivate relationships with not just the major players but with multiple alternative prospects. Smaller niche players need to be nurtured to avoid becoming overly dependent on any one source of business.

When it comes to distribution, hotels need to stop their short-term thinking and look at the broader picture. If they continue to endlessly feed the major OTAs with inventory and special rates, soon they will be left with no alternatives. A broader, more portfolio based, approach to distribution is needed to minimize risk and ensure hotel success in the long run. ■

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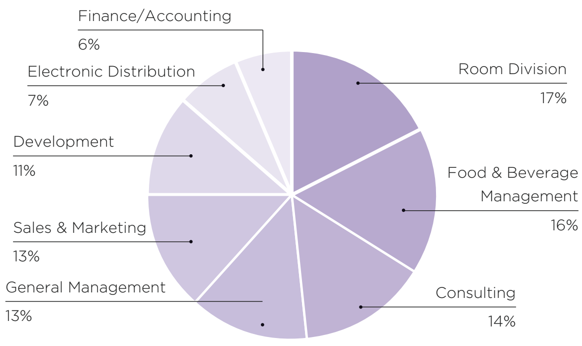


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