

## Understanding Online Distribution Channels

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In a period of economic uncertainty, hotel operators cannot seek to control economic conditions, but they can strategically implement marketing to increase sales and hotel profitability regardless of market uncertainty. This article summarizes the trends in three online distribution channels used in the hospitality industry: websites, Global Distribution Systems (GDS), and online travel agents (OTAs). Investing marketing dollars in these online distribution channels is becoming essential if hoteliers want to retain customers, improve hotel positioning, and gain a competitive advantage in markets that are sometimes saturated with hotel supply.

The Internet has made marketing more measurable and accountable with different metrics and analytics that show the contribution of marketing to the bottom line. The most critical measures of marketing are the customer acquisition cost (CAC) and the customer lifetime value (CLV), which at times can be difficult to understand and quantify.

### Understanding CAC and CLV

The CAC is the price a hotel pays to acquire a new customer, which can have a significant impact on RevPAR performance and asset value growth. The CLV is a prediction of the value a business will derive from its entire relationship with a customer.

$$CAC = \text{Marketing Campaign Costs} / \text{Total Customers Acquired}$$

$$CLV = \text{Gross profit from all historic purchases for an individual customer}$$

Focussing on the channels that produce the best customers in terms of loyalty and profit will generate the highest CLV. Distribution channels should then be optimized based on CAC and CLV—not on the gross revenue of the initial guestroom booking, which is a common mistake among hotel operators.

If managed skillfully, the hotel's website could yield the lowest CAC and the highest CLV as it permits the hotel to have a direct interaction with the customer which could lead to a long-term relationship. Nonetheless, intermediaries such as OTAs and GDS can make a valuable contribution even at a higher CAC and a lower CLV, because they offer marketing exposure to a wider range of market segments, bringing demand during periods of low occupancy. To this end, hoteliers can use marketing advancements to pinpoint sources of demand and identify trends in customer behaviour and preferences, improving gross sales and profit.

Each online distribution channel plays a different role in the hotel's marketing program: the hotel website reflects and emphasizes the hotel's image and competitive edge; OTAs can boost occupancy in need periods and help diversify a hotel's client base by introducing guests that otherwise might not have considered staying at that particular hotel; and the GDS connects hotels with consortia, which are global associations of travel agents that provide hotels primarily with major sources of corporate business.

### The Hotel Website

The website typically has a fixed cost—an upfront development fee—which, depending the number of pages,

### Summary

This article covers the importance for hotels to invest in three online distribution channels – the website, Global Distribution Systems, and Online Travel Agents – to retain guests, improve hotel positioning, and gain a competitive advantage.

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could be several thousand dollars. A minor ongoing monthly or annual fee will also be required to maintain the website. As the number of website-generated reservations increases, the CAC diminishes since the costs to run the website are not directly associated with the amount of revenue generated. Hotel websites typically have the lowest CAC of all the channels. Moreover, the hotel website allows for data mining, which in turn permits operators to get to know their customers' demographics, attitudes, and behaviours. As such, it is the distribution channel that offers the highest CLV.

The hotel website is the most critical marketing tool because it can deliver a message that is both relevant and appealing to the target customer. It should offer a user-friendly and presentable design that highlights the unique attributes of the property. The website strategy serves two purposes: it increases the number of visitors to the website and converts the maximum possible number of visitors into hotel guests. A fast website that features high-quality photographs, descriptive content, and a user-friendly experience on multiple platforms (whether using a desktop, mobile, or tablet) increases the number of booking conversions and builds brand integrity. The conversion ratio should be analyzed periodically to see where improvements can be made. Conversion ratios can be obtained using a site-search-tracking program such as Google Analytics, Adobe Omniture SiteCatalyst, StatCounter, or ChartBeat.

A responsive web design provides an optimal viewing experience by adapting the website to mobile phones, desktop computers, and tablets. A responsive design is an advantage because a wide range of devices are used to make hotel reservations. On April 21, 2015, Google started using a search algorithm that favours responsive websites for search results conducted on mobile devices. This could be a significant advantage for a hotel considering that mobile bookings have increased by 42% in the last two years, accounting for 25% of total bookings made in the Americas, as reported by TravelClick.

A single responsive website not only enhances search engine optimization (SEO)—the process of improving visibility of a website on search results—but also is more cost efficient than two separate websites, one optimized for a desktop computer and one designed solely for mobile devices.

A complete online strategy should implement customer engagement technology, including social-, location-, and mobile-based applications. Website features—such as Google maps, email signup, customer testimonials, TripAdvisor widgets, and social sharing—are no longer a point of differentiation but rather are a point of parity for hotels. Consumer-generated content is one of the most important resources that affect favourable brand image and experiences. Even negative comments can be an opportunity to engage with the customer and regain their trust.

Hotel brands such as Marriott, Hilton, Starwood, IHG, and Wyndham have been investing in online marketing for decades, improving their SEOs and achieving higher conversion rates. Despite the fact that big brands outrank smaller competitors for generic terms and long-tail keywords, consumers are now savvier than they used to be, and will search for keywords that include products and services that are important to them, as well as relevant landmarks, such as airports, sports stadiums, conference centres, and work-related destinations. These preferences could be as simple as a recreational facility, such as a swimming pool, or a value-added service like complimentary breakfast. A hotel website that contains relevant, unique, engaging, and accurate information will be able to dominate SEO. Well-presented and informative content—describing the location of the hotel, nearby landmarks, and products and services offered—will differentiate the product from competitors in the same area.

A vanity domain name with an independent website that reflects the hotel's unique personality can be an advantage for a branded hotel operator to include relevant information about their particular submarket and the property. It is important for owners and operators of branded hotels to understand the different restrictions that the brand imposes on the website look and feel. The advantages of having an independent website include higher coverage in search engine results, a customized design with faster website updates, and integrated social media outlets. The independent website will also allow hotel operators to have detailed website tracking and analytics.

## **Online Travel Agents**

This channel has the highest cost for hotels given the bidding process and the commission structure in place, typically amounting to 15% to 30% of revenues generated. The advantage of this distribution channel is marketing exposure. If a hotel is incapable of filling certain days using other channels, even higher-cost OTAs would be considered a benefit.

The four major online travel agents are Priceline Group, which owns Booking.com and Priceline.com; Expedia Inc., which owns Expedia.com, Orbitz.com, Trivago.com, and Hotels.com; Fareportal Inc., which owns CheapOAir.com and OneTravel.com; and TripAdvisor LLC, which owns BookingBuddy.com and TripAdvisor.com, which has recently added instant booking capabilities on the website.

Branded hotels typically have agreements and commission structures in place with different OTAs. Commissions charged to branded hotels can range from 10% to 20%, depending on the brand and the OTA. Independent hotels have more control over the agreements because the hotel operator enters into the agreement with the respective OTA market manager rather than having the brand do it for them. The commission structure for independent hotels typically ranges from 15% to 25%.

Most OTAs feature a pay-per-click sponsor listing through a bidding process that typically ranges from \$0.25 to \$2.00 per click, depending on the market. A monthly bidding campaign budget of at least \$2,000, with bidding preferences that can be set by day of the week, is recommended for a hotel in a primary market. The budget recommended varies depending on the market and the type of property. The bidding strategy should be consistently improved based on the analytic reports that the OTA provides, which often include data on the return on investment for every bidding campaign.

Each OTA uses a slightly different algorithm to position and rank hotels in the results screen. Regardless of the OTA used, hoteliers should implement the following techniques to position their hotel with the highest possible ranking:

- Respond to reviews in timely fashion to improve customer feedback scores.
- Provide full property and guestroom descriptions and update relevant information about the property, including high-quality photos.
- Work with your market manager to understand upcoming trends and get the best strategy that fits your property.
- Make sure that room inventory is constantly available for the OTA, avoiding block-out dates.

Opaque pricing, where the hotel remains hidden until after the purchase has been completed, is also offered through Priceline.com and Hotwire.com. In this channel, the hotel booking process is based purely on price and not the facilities, brand, or reputation of the hotel. According to TravelClick, the opaque channel accounted for 6% of all hotel reservations in Canada in 2014.

The opaque channel is used to prevent revenue losses resulting from unsold inventory. However, this channel offers the highest CAC and the lowest CLV and so is the least profitable—the room rate is often set at the floor price, which only covers the fixed and variable costs of selling the room. The opaque rates are set at a discount percentage from the Best Available Rate (BAR) by day of the week and date.

### **Global Distribution Systems (GDS)**

GDS provide pricing, availability, and reservation functionality to a world-wide market of consortia, who can book airline, car, hotel, and other travel arrangements for their customers. The four main GDS are Sabre, Galileo, Amadeus, and Worldspan. The GDS feed most consortia, providing a major source of business for hotels that capture strong corporate demand. Some of the main international consortia are ABC, BSI, American Express, BCD, CCRA, Carlson Wagonlit, Radius, and Thor. Pricing for GDS typically involves a low initial set-up fee of less than \$1,000, and per-transaction fees that can range from \$10 to \$15 per reservation. Transaction fees can

become costly, as some hotels focus on lowering rates to maintain relationships with the travel agency in an attempt to generate more revenue instead of acquiring customer information and focussing on improving CAC and CLV.

It is important for hotels to ease the booking process for travel agents by including the right type of information and rates in the GDS, and by keeping hotel information current, including all attractions and points of interest that attract guests.

There are services available to hoteliers to help measure the effectiveness of GDS, such as TravelClick's Hotelligence reports, which monitor the performance of different consortia in their respective markets. Agency360, also a service provided by TravelClick, identifies the main travel agencies used by a competitive set or located within a geographical area, and provides information that can be used to recognize key corporate accounts in the hotel market.

The GDS distribution channel remains an important part of the industry, and it can have a significant impact on the amount of commercial demand captured. Data mining will help managers understand how many room nights are being booked and the typical season and day of the booking, which will in turn help them recognize how to maximize profit from these accounts and avoid displacing higher-rated demand.

GDS channel advertising opportunities are also available to increase the exposure of the hotel on the GDS. Investing in a targeted GDS and consortia advertising campaign can be an effective way of increasing business from this distribution channel. Special consortia rates can be used to reward agencies that deliver consistent business to the hotel.

### **Measuring the Distribution Channels**

Demand360 is a market intelligence tool from TravelClick that provides exclusive information and in-depth reports on projected future demand for a hotel's specific competitive set. TravelClick has partnered with different brands to acquire information on booking channels for branded hotels, including GDS, OTAs, brand websites, and direct reservations. This service, which is also available to independent hotels, allows revenue managers to analyze the competitive set booking pace by distribution channel for future dates. Revenue managers will then be able to recognize specific dates on which demand is strong for properties in the competitive set and the booking channels that are being used to capture that demand. This tool allows hotels to optimize their revenue management strategies by recognizing sources of demand for future dates and leveraging rates.

### **Conclusion**

The more information we know about customers, the more we will understand how to attract them to hotel properties. Hoteliers need to understand the electronic distribution environment and develop a comprehensive pricing strategy to maximize revenue and profit. Maximizing profitability can only be possible by extracting intelligence on the day-by-day activity of these channels and analyzing the possible displacements.

An effective marketing strategy starts with knowing your customers and your goals. The CAC and the CLV are valuable metrics that are not shown on today's financial statements and that have to be analyzed independently. The website is an online distribution channel that could potentially have the lowest CAC and the highest CLV. Because of that, it is important to understand how to attract online shoppers, increase conversion rates, and have data mining tools to understand the customer's preferences and booking patterns to be able to develop a long-lasting relationship. In addition, OTAs and GDS remain an essential part of the industry, as they provide marketing exposure to a wider range of market segments. Marketing budgets must therefore be strategically implemented to leverage each distribution channel to its maximum potential for an individual property, making sure that low-yielding distribution channels are not displacing demand from higher-yielding channels.

