Dirty Distribution Tactics and how Hotels are Fighting Back

A white paper with insights from Rough Guides, Highgate Hotels, NH Hotels, Wyndham Hotels & Resorts, CarTrawler, Civitatis and EyeforTravel

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There is no getting away from it. On the travel industry stage, with the exception of China, Google today is the lead actor. From booking a flight or hotel to planning a day trip or finding an in-destination tour or activity, Google is there to assist at every stage of the travel journey.

As Rough Guides CEO René Frey puts it: "Google is a different beast. It sits all along the user journey with incredible power."

That's no lie. In the last quarter of 2018, Booking Holdings forked out $1.3 billion on performance marketing, and it is estimated that 80% of that landed in Google's pocket. Acknowledging the threat, Expedia Chairman Barry Diller came out calling for greater regulation of Google, while Group CEO Mark Okerstrom followed soon after with the admission that the group's biggest competitor is now Google.

Speaking from an air industry perspective, Bobby Healy, CEO of CarTrawler, a tech firm that works with hundreds of airlines, says: "Google travel revenue continues to grow like a firework in the sky. It is now, by far, the largest cost in the online travel industry, dwarfing GDS costs, and any other distribution or operations costs airlines have seen. In fact, Google have erected the largest toll booth on distribution that the travel industry will ever see."

Clearly Google's influence reaches into all corners of the industry and, worryingly for some, there is no sign of this abating. In the case of the big two online travel agents (OTAs) - Expedia and Booking.com – the irony cannot be missed that Google, which propelled the pair into their dominant position in online travel, is now their biggest competitor. At the same time, the concerted, and successful, digital transformation efforts of the big hotel chains to drive more direct bookings, has led to a rethink of the OTA business model. Indeed, the big OTAs have been feeling the heat from all angles, including from European competition authorities, and have been looking to cast their net further into other areas of the travel market, including small to mid-tier independent hotel groups.

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Gopakumar Menon, VP – Distribution & Revenue Management, Highgate Hotels

So, what they may not be so happy to hear is that, according to Gopakumar Menon, VP – Distribution & Revenue Management, Highgate Hotels, "Google is probably by far the only making one strides to make the independent hotel bedroom relevant".

Across Highgate's portfolio - over a hundred hotels and approximately 30,000 rooms around the world, representing everything from legacy brands to bespoke lifestyle and independent hotels – Google's ad budget runs into hundreds of millions of dollars. Menon, who is responsible for daily decisions on marketing, revenue and pricing for 11 existing hotels, as well as for assisting in underwriting new acquisitions, says: "With our large collection of big-box independent hotels in prominent cities that deliver high average daily rates (ADR), we can use our collective bargaining power across two continents to get seat at Google's table".

Where Google is really helping independent hotels to fight back against the OTAs is with its Hotel Paid Ads (HPA) product. "This is huge because Google is even going a step further by making hotels visible and bookable based on the number of transactions they secure," says Menon. In other words, Google is guaranteeing a hotel's position on a page if they increase commissions by an agreed percentage.

This is not to say that Highgate is developing an unhealthy dependency on Google. In fact, given the rising cost of customer acquisition, it is looking at its business from all angles in a bid to get its own house in ship-shape.

Menon explains why. "Historically, GOPPAR – gross operating profit per available room – defined the business. While this remains an important focus, customer acquisition costs have become one of our biggest ticket items. This used to be considered a sales and marketing expense, but it's recently become very dynamic and is appearing on our radar because it is creeping into NOI [net operating income] numbers," he says.

Highgate is not the only hotel chain on a mission to understand and better manage the competitive distribution landscape. Spanish-based NH Hotel Group, which has 350 hotels in 28 countries, is another. Maite Aguilar, VP of Distribution, NH Hotels, says: "What we have seen in the last year is that there are more and more distribution channels popping up. While on the one hand that can give hotels more visibility, on the other it is difficult to control how our rates are being distributed. As a result, in the past year, we have seen our competitive scores falling."

Among the issues hotels are faced with are:

- **Blurring distribution channels:** The big issue is that previously there were clear and distinct channels to distribute inventory on – OTA, wholesale, metasearch, corporate travel agents et al – but these are now blurring. One example of this is the practice of onward distribution, in particular by Expedia, which operates a merchant model. In other words, hotels supply inventory to Expedia to sell on to the traveller, but this somehow ends up on B2B channels, and even other B2C metasearch channels like Google HotelFinder, Trivago, Agoda and so on. As an example, an airline could take a room from Expedia and sell it on the airline dot.com. And the result is that hotels that don't have a handle on rate parity, or their partners, could see rates devastatingly diluted.

- **Wholesaler shenanigans:** In the wholesale space, which, like the OTA landscape, has seen the consolidation of major players – Tourico, GTA and HotelBeds – come under one umbrella, firms are doing something similar. Often wholesalers secure heavily discounted hotel net rates. If a rate, which is sold on to other channels is then marked up to the hotel's best available rate, that's all good, but very often this is not the case. Often lower rates are published on any channel that will take them, and this too disrupts hotels' direct strategy.

- **Rising commissions:** One of the biggest headaches remains rising costs of OTA and other intermediary commissions which, according to Menon, used to be around 10% but are creeping up to 20%. In Europe, and especially London, this is particularly onerous. Unlike in the US, where published customer rates exclude taxes, in Europe hotels often pay commission on other elements – such as breakfast - that are increasingly bundled into the final rate.

- **Covert bidding on branded keywords:** Previously pay-per-click (PPC) was a powerful way to spend marketing dollars but thanks to Google this is no longer the case. Whereas OTAs used to only be able to bid on the destination city, now they can even ring fence the hotel name. So, bidding on branded keywords by the OTAs on Google and Bing has made ecommerce or PPC initiatives far too expensive. What is more, this is a double whammy to the direct drive, because if a customer arrives on a hotel website via an OTA, they also immediately have the choice of hundreds of others if there is no availability. This means that the hotel brand is further diluted.

- **Defensive pricing:** Even when contracts have been renegotiated with OTAs and wholesalers, some intermediaries are still working their own margins to undercut the hotel's best available rate. For example, if a partner is taking a 20% commission from the hotel, they might pass on a 5% discount to the end user in order to secure the booking. Partnerships like this are problematic and savvy hotels, like NH, are addressing this challenge by working with technology companies like OTA Insight to understand exactly who the culprits are.

Unsurprisingly, all these factors are leading hotels to rethink where they spend their money. NH Hotels, for one, is investing budget in technology partners that automate processes that were previously done manually. Aguilar says they are still experimenting with various techniques, but are currently working on three priority areas: online visibility, market rate information and OTA ranking.

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>
> Highgate Hotels

In Highgate's case, it is investing in tracking mechanisms that highlight which branded keywords the group is being outbid on. At the same time, it is has scaled back PPC spend by a third over the past two years because "we can't compete with the OTAs, and it simply doesn't work".

At Highgate, this spend is being redirected into Google, and also Facebook and Instagram, which from an advertising perspective, according to Menon, are more effective channels. When it comes to hotel search, Google's HPA product has completely transformed the landscape; today when a user searches for hotels in a particular city, they immediately land on a Google map with an arrival and departure date. "It is no longer based on keywords. It is mainly based on your cookies and what other websites you have visited in the past, what hotels you want to stay in, and in what location," he says.

So, is everybody doing it? For the moment, at least, it's a no-brainer, because if hotels don't then the OTAs will. In other words, if a user searches for a hotel, it will definitely appear in the Google frame but accessible from, for example, a booking.com link. So yes, says Menon, "everyone is doing but not necessarily consciously. It has just happened thanks to Google".

Dishing out thanks to Google doesn't come that easily and while, on the surface, it seems that HPA releases hotels from OTA chains, it comes with its own problems. "The unfortunate piece is that we cannot work directly with Google. We are forced to work with intermediaries approved by Google and they are in a very nascent stage of tech development," Menon explains.

Approved Google intermediaries include the likes of Sabre, DerbySoft, eRevMax and more, which take hotel inventory and publish it on Google.

So, it should never be forgotten that Google gives with one hand, and takes with another.

Prime opportunity

Of course, Google is not the only tech giant with a major interest in travel, which accounts for 10% of the global economy. Facebook too, which saw global advertising revenues reach $33 billion in 2018, is actively targeting marketers and has developed tools like Facebook Dynamic Ads for Travel. At the same time, Instagram, also owned by Facebook, is proving an effective platform for travel brands to invest in.

And then, there is the elephant in the room - Amazon. "For sure," says Aguilar, "if Amazon enters the market they will be a monster with a lot of data."

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>
> Inderpreet Banga, Senior Director, eDistribution and Wholesale, Wyndham Hotels & Resorts

To put this in perspective, in 2018 the online retail company had 100 million subscription-based prime customers. By all accounts, Amazon has a captive audience for travel products and services, a fact not missed by the investment community. As an analyst from Wall Street bankers Morgan Stanley pointed out last year: "Amazon's focus on selection/service, pricing, and frictionless payment that drive conversion and stronger user economics also translate directly to travel".

A no-brainer, some would say. While not everybody believes that Amazon's foray into travel would be that big a deal, it could expose issues in the marketplace, especially for those companies that don't have their rate parity ducks in a row.

Inderpreet Banga, a senior director of eDistribution and Wholesale at Wyndham Hotels & Resorts, says: "Amazon could go the direction of exclusive rates such as Google has done with their Google One programme. They source discounted inventory from various distributors that undercut the market using the Google 'closed user group'. I think this is why inventory control is so important and those distributors that do not abide by the terms of the agreements will be turned off or penalised."

Amazon has already dipped its toe in travel but, says Banga, "considering that its search traffic and market share continues to rise, it could acquire inventory from all travel providers and create its own marketplace/metasearch type platform".

7 Ways for Hotels to Take Back Control

EyeforTravel's survey revealed that 34% of respondents are worried about large OTAs, which have much deeper pockets, owning the customer. But increasingly hotels are showing their teeth. As Menon puts it: "We are making them aware that just as they are watching us, we are also watching them. We are letting the OTAs know that we are as serious as they are and our direct business is very important."

NH Hotels also means business. "Getting our distribution strategy under control is a major priority for our business right now, and we are experimenting and testing various techniques to see what works," Aguilar says.

1. **Revise all contracts, pricing and terms and conditions.** It is crucial to get it right. Send out an addendum that specifies exactly which keywords can and can't be bid on. Consider rethinking the competitive rates given to channel partners, so they have less margin to play with.
2. **Notify partners when they are breaching agreements.** This requires resources but repeatedly and consistently alerting market managers about any violation will pay off. In Highgate's case this has been "phenomenally successful". Sometimes, hotels need to ruthlessly close channels that are not playing ball.
3. **Track where repeat bookings originate and educate the customer.** OTAs have been successful in driving customer loyalty. However, campaigns like Hilton's 'stop clicking around' have helped to raise consumer awareness. Even so, hotels need to track repeat cases of guests booking on OTAs and show them the benefit of direct booking.
4. **Rethink wholesale relationships.** In major cities, Menon believes that it is only a matter of time before wholesalers will become redundant, and Highgate has already reduced its relationships. The exceptions are destinations in Africa, where trips can be more complicated and involve everything from having the right vaccinations to booking a safari, or seasonal places like the Canary Islands.
5. **Switch from static to dynamic rates but keep eyes open.** Many hotels, like NH, have already shifted wholesale contracts from static to dynamic rate agreements. However, even then, partners need to be closely monitored to ensure they aren't unethically playing with margin to pass on discounts to the end customer.
6. **Stop doing RM on the back of a napkin.** Today a very small number of hotels (Menon estimates about 5%) are using RM systems. Brands should invest in automation of RM and pricing and purely focus on distribution and cost management. Decide what to do in-house and what to outsource but stay relevant. Investments in big data, and systems to consolidate data from all channels should, if they aren't already, be a focus, as is a strong algorithmic approach. Intelligence is now available to understand who isn't playing ball – use it.
7. **Don't undervalue face-to-face interaction.** Hotels have the guest under their own roof for three to four nights, so this is an opportunity to connect. Drill the front-of-house team to educate guests about the value of booking directly.

Putting money in the right place

Managing the OTAs and Google is not just a challenge for hotels. Enrique Espinel, chief operating officer of Civitatis, an online platform for tours and activities in Spanish speaking markets, says: "Large OTAs are constantly incorporating services beyond transport and accommodation, and even Google now has Touring Bid, a company selling local experiences".

Indeed, in the market for tours and activities, expected to reach $183bn by 2020 according to PhocusWright, Civitatis, which launched in 2015, certainly has growing competition. Customer acquisition is therefore a priority for the Civitatis team, and, perhaps unsurprisingly, the wider industry. EyeforTravel's recent *State of the Industry Survey,* which attracted over 1,600 responses, finds that this is top of mind for 28% of executives from across the travel industry.

"Throughout all human history, customer acquisition has been the biggest issue for business, but today the real challenge is about cost optimisation and conversions," says Espinel, who admits that they are seeing client acquisition costs, especially via Google Adwords, rising year-on-year. At the same time the number of businesses and the amount of money in play is constantly increasing.

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> Enrique Espinel, Chief Operating Officer, Civitatis

Given how Google's foray into the accommodation and air tickets is playing out, if projects like Touring Bird work, then other minions in this fast-growing area will have to find ways to work and sell with them. After all, Google usually works on the basis of redirecting traffic to partners and taking commissions.

Says Espinel: "In our case, our main acquisition channel is organic traffic via Google and other search engines where we only work on the basis of successful sales with a pre-established commission. On the other hand, if the travel agency tries to sell directly, they will come up against the same problems that we've seen with intermediaries. Sky-high keyword bids, changes to the Google algorithm, new demand-side Platforms, Ad Exchanges and so on".

So, reducing dependence on Google is something that all travel brands are aiming to achieve. While Espinel acknowledges that they will have no choice but to work with Google, which is currently their main channel for organic traffic, he says: "We are continually trying to improve pay-per-click conversion rates because, if we convert better, then each click is cheaper. On the other hand, if we want to reduce our cost-per-click, there's no better way to do so than to look for new keywords and focus on [highly specific] long-tail searches."

Ultimately, Espinel believes brands will need to specialise in a particular area, and in the case of Civitatis this will be by distributing destination-based activities for the Spanish speaking market.

His point is that while customer acquisition may be a priority for travel executives, there is no point putting the cart before the horse. After all, if you don't have a product or service that customers want and need, then you don't have a business.

This is an evolving process and there is not time to stand still. "We've always received thousands of visitors thanks to SEO, but we can't base our business model on that, given that it's something that can change from one day to the next," Espinel says.

Not standing still is something that Rough Guides' CEO understands well. Since acquiring book publishers Insight Guides in 2014 and Rough Guides four years later, he says it has been absolutely crucial to understand their existing customer base, while carefully redefining the core business for a digital world.

"For us, the ongoing question has been how to release the assets of two respected travel brands and transform them into a sustainable business model for a different market, while not losing sight of the existing unique audience of book buyers," says Frey who quickly concluded that "we had to move from an advertising to a transaction-based business model".

Shifting ground

If anybody understands the need for radical change, it is somebody who has invested in traditional book publishing with a view to turning it around. "The only thing that I am very confident about is that digitisation will sooner or later cut out middlemen," says Frey.

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He also believes that as the internet continues to develop, and bandwidth increases, there are also possibilities for emerging technologies like voice and blockchain to disrupt the status quo. Already, fintech is delivering alternative modes of payment from the likes of Apple, Android or Amazon Pay, and this likely to accelerate. At the same time, as much as Google poses a threat it's also creating new opportunities. Expedia's recent deal that will allow its customers to book travel, including rental cars, through its AI-driven Google Assistant, is just one example.

Respondents to the EyeforTravel industry survey, resoundingly agree that technological innovation is where the battle will be won (67%). This is followed by partnerships (27%) with just 5.8% believing that further merger and acquisition activity will pay dividends, arguably because the biggest ones have already happened!

The times, across the travel insdustry, are certainly changing.