

THE REAL COST OF ONLINE TRAVEL AGENCIES



By Kristi White | Director, Revenue Optimization | TRAVELCLICK®

ARTICLE REPRINT

Hoteliers will tell you that dealing with online travel agencies (OTAs) is a necessary cost of doing business. Yet, in recent history, they have become more than that for hotels – in fact, for some hotels, particularly in 2009, OTAs were an essential marketing channel for staying alive. However, 2010 has been a different story, and 2011 will be an even more different story.

So, in the midst of budget seasons for most hotels, let's look at the true cost of this business as we would examine any cost at our hotel. Because of their business model, OTAs are often an overlooked cost that is not included in annual marketing budgets. (OTAs very wisely retain their commission at the point of sale.) So, hotels never feel the pinch of the “cost” of that piece of business.

The chart below analyzes the true cost of OTA business. It looks at the average size of a hotel in different regions of the world. Using July year-to-date occupancies and average daily rates (ADRs) from Smith Travel Research, we extrapolate the cost of the OTA business at different contribution levels. For margin, we used an average of 20%. Your individual hotel costs may be lower or higher based on the favorability of your margins. The cost ranges from a low of \$22,450 at the 10% contribution level to a high of \$173,881 at the 25% contribution level. Are you shocked by this spend?

Region	Average Hotel Number of Rooms	Year To Date Average Occupancy	Year To Date ADR	OTC Contribution to Occupancy			
				10% Contribution	15% Contribution	20% Contribution	25% Contribution
Americas	91	58.3%	\$99.85	\$22,567	\$33,850	\$45,133	\$56,417
Asia Pacific	142	64.4%	\$126.67	\$49,347	\$74,020	\$98,693	\$123,367
Europe	79	62.2%	€97.68	€20,447	€30,671	€40,894	€51,118
Middle East	169	62.3%	\$155.07	\$69,552	\$104,329	\$139,105	\$173,881
United States	93	58.1%	\$97.53	\$22,450	\$33,674	\$44,899	\$56,124

On an annualized basis, these numbers are even higher. If your hotel is in the Americas, you could be spending as much \$96,000 in unallocated funds toward marketing your hotel.

Region	Average Hotel Number of Rooms	Year To Date Average Occupancy	Year To Date ADR	OTC Contribution to Occupancy			
				10% Contribution	15% Contribution	20% Contribution	25% Contribution
Americas	91	58.3%	\$99.85	\$38,671	\$58,006	\$77,341	\$96,676
Asia Pacific	142	64.4%	\$126.67	\$84,561	\$126,842	\$169,122	\$211,403
Europe	79	62.2%	€97.68	€35,039	€52,558	€70,077	€87,596
Middle East	169	62.3%	\$155.07	\$119,186	\$178,779	\$238,372	\$297,965
United States	93	58.1%	\$97.53	\$38,470	\$57,705	\$76,940	\$96,175

Knowledge Is Power Series

Source: HotelInteractive.com, October 2010

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You may think that – based on the opening of this article – I am anti-OTAs . I'm not; I just believe that hoteliers need to factor in all of their costs and where possible, reallocate those funds to channels that drive more revenue to their hotels.

What channels drive more revenue for hotels? The chart below represents the revenue the hotel keeps by channel for an average hotel. The Web direct channel brings the highest net return for the hotel, providing 17% more revenue (\$28 in this example).

Sell Rate		\$ 100.00	Average Length of Stay		2
Reservation Cost	6%	Reservation Cost	6%	Reservation Cost	20%
Web Direct		GDS		OTA	
Total Revenue	\$ 200.00	Total Revenue	\$ 200.00	Total Revenue	\$ 200.00
Reservation Fee	\$ 12.00	Reservation Fee	\$ 12.00	Reservation Fee	\$ 40.00
Commission	\$ –	Commission	\$ 20.00	Commission	\$ –
Pass Through Fees	\$ –	Pass Through Fees	\$ 6.00	Pass Through Fees	\$ –
Net Revenue to Hotel	\$ 188.00	Net Revenue to Hotel	\$ 162.00	Net Revenue to Hotel	\$ 160.00

Even with these numbers, many hotels may still think that getting 25% of their business through the OTAs is a valid business plan. All you do is sign an agreement, provide a rate, and open up some inventory – and the customer walks through the door. In essence, it's free business; except for that \$96,000 you might be spending to get it. And, beyond the \$96,000, you never actually acquire the customer. You might get the business, but you don't get the customer.

Owning the customer is where the real value lies. The OTAs know this. That's why they don't share customer email addresses with your hotel. They retain customer ownership, which allows them to remarket to customers over and over and over. You, however, got a one-time transaction that you spent 20% or more to obtain.

So, what do you need to do in 2011? We know that you probably can't afford to turn this channel off. So, you need to work with it while also weaning your dependency. In this effort, it will likely be small steps that lead you on a path of lower contributions and higher profits:

1. Determine your actual contribution to total occupancy from the OTAs, along with how much this contribution costs your hotel.
2. Develop an action plan to lower your OTA contribution by 2–5 points in the next six months. In the examples above, in the Americas, going from 25% contribution to 20% contribution would save your hotel \$19,000 annually in expenses. Allocate some of that savings toward Internet marketing to drive new customers to your website. Also, doing this would drive 17% more revenue to your bottom line. This would represent incremental revenue, which flows to the bottom line at 90%.
3. Take a long, hard look at your website. When was the last time you renovated it? Many hotels will spend hundreds of thousands of dollars renovating their hotel but won't spend \$10,000 on a new website. Is your site easily navigable? Does it have a call to action to book? Does it accurately represent your hotel? Is its primary goal to sell rooms at your hotel? If you can't answer a resounding yes to all of these questions, it's probably time to give your site a makeover.

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Source: HotelInteractive.com, October 2010

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4. Develop a comprehensive Internet marketing strategy that includes search engine optimization, pay-per-click, email marketing, and social media. As you look at the numbers in the charts above, ask yourself this: Do we spend this much on actual direct marketing? If the answer is no, you might want to take another look at those direct marketing numbers.
5. Starting today, create an incentive plan for your front-desk staff to capture an email address for every OTA customer who walks in your front door. After checkout, every one of those customers should receive an email thanking them for their stay and offering them some come-back opportunity. These emails should help the customer understand how booking directly with your hotel is best for them. This can be as simple as a slightly lower rate that is rate-code accessible or a value-added opportunity that is available only when booking through your website.
6. Develop an ongoing strategy to remarket to any customer who has booked your hotel through an OTA. If an average customer is worth \$200 for each stay (ADR \$100 at an average length of stay of two nights), you potentially gain \$200 for each additional stay. So, if a customer stays in your market three times a year, by converting them from an OTA customer to your customer, that customer is worth an extra \$400 to your hotel.

In our market segmentation, the OTAs have carved out a healthy slice of the pie. However, the size of the slice is in your hands. Start carving today to thin out their slice and fatten yours. You can't turn them off instantly, but you can redirect that business gradually to more profitable channels. For every reservation you redirect, you put 17% back into your profits. What could your hotel do with 17% more profits?



Kristi White is Director of Revenue Optimization for TRAVELCLICK®. An industry veteran, she leads one of the most unique organizations within TRAVELCLICK, the Revenue Optimization Team. The team is 100% dedicated to providing personalized attention to TRAVECLICK iHotelier® customers to maximize each hotel's transactions revenue through best practices in marketing and distribution. A recognized expert in her field, Kristi is a frequent speaker on revenue management and distribution at industry conferences and hospitality schools. She is a former member of the Board of Directors for the HSMIA Revenue Management Special Interest Group. Kristi holds a B.A. in political science from Louisiana State University and a Certified Hospitality Sales Professional and Certified Hospitality Supervisor certification from the American Hotel and Lodging Association. She can be contacted at 281-846-7073 or kwhite@travelclick.net.

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Source: *HotelInteractive.com, October 2010*

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