Revenue Management

The value of hotel-direct bookings is measured by more than numbers

by Patrick Bosworth, Duetto | May 31, 2018 3:20pm

Photo credit: gustavofrazao//Getty Images

When a controversial report finds "no measurable" benefits for hoteliers who shift their booking mix from online travel agencies to direct channels, you can be sure its arguments—especially a specious claim like direct-booking campaigns' main goal is to "reduce transparency for consumers"—aren't backed up by credible facts.

That's because revenue and distribution strategies are about more than just numbers.

Granted, they should result in maximum profit over the long run. But in addition to the data science involved in revenue strategy, customer relationships matter a great deal to a hotel's success. The consulting firm Infrata seemed to imply otherwise in a study of hotel distribution costs published in May, sponsored by the European Technology and Travel Services Association.

In addition to questionable metrics, the report's most puzzling assertion is that hotels' efforts to drive more bookings directly decreases customer transparency.

What the ETTSA Gets Wrong on the Merits

First of all, hoteliers should consider the source of this report before analyzing its claims. The ETTSA—speaking of transparency—is a trade group representing OTAs and global distribution system providers.

And, to be fair, maybe you're similarly skeptical of my opinions in this piece, since my company's aim is to help hoteliers achieve their most profitable mix of bookings by modernizing the e-commerce experience they can provide through more dynamic pricing.

Yet I would never argue that direct bookings are the only way for hotels to distribute their inventory. OTAs have a sensible use case for most hotels looking to fill need periods or enter new markets. The mix of those intermediary-sourced bookings—along with room nights secured from brand.com, wholesalers, corporate negotiations or other sources—is different for every property.

A distribution strategy must maximize a hotel's engagement with its guests. That's how a property sells the optimal number of rooms for the highest possible profit. Unlike with OTA bookings, a transaction on brand.com or within a loyalty program enables a hotel to responsibly gather as much data as possible about each customer and use it to simultaneously improve the guest's experience and the bottom line.

The approach does not negate the usefulness of OTAs in times when hotels need to acquire new guests. However, good hoteliers prioritize customer retention above customer acquisition. When would it ever make sense to rely solely on intermediaries for distribution, forcing a hotel to reacquire guests over and over?

How Direct Channels Empower Better Hospitality

The end-to-end guest experience is more hospitable when the hotel secures a reservation itself rather than through a middleman. With direct

About the Author

Patrick Bosworth, Duetto

bookings, the hotel-customer relationship is deeper and begins sooner.

Hotels already have preference and spending data if a repeat guest is booking directly. The property can personalize a package or upsell in the run-time path, rather than putting that responsibility on a front-desk agent at check-in.

The hotel's staff can take care of guests even before they arrive. If you've ever tried to change a booking that you made with an OTA, you know it's more difficult when the hotel staff has only the minimal amount of data the OTA shares with properties.

Of course, at the property during the stay is where the hotel's hospitality comes into play. When hotels own their customer data and execute on it, their staffs know how to greet customers as the repeat guests that they are and to have the guests' rooms ready according to known preferences. And if that customer is a new person to the property after booking via an OTA, it's the hotel's job to collect contact information, encourage sign-ups to the loyalty program and begin tracking all that person's spending.

What the ETTSA Gets Wrong by the Numbers

The costs involved with retaining these skilled team members, empowering them with new technology and maintaining the physical assets, are necessary to providing the experience that generates true loyalty to a hotel.

Other costs can be volatile for hoteliers, such as franchise and brand fees over which they have little control, or the interest rates on their growth capital or existing debt.

Distribution costs are the logical place for hotels to make back a lot of their profit margin, because strategic changes that are wholly within a property's control can make a major difference. That makes direct bookings a powerful lever to drive incremental profit—as opposed to an OTA commission, which is just a percentage of room revenue that rises in proportion to higher room rates or longer lengths of stay.

It's also a matter of scale. Given the thousands of room nights booked online for a typical hotel in a year, improving the average cost of acquisition by even a percentage point with a more favorable mix of direct bookings translates into significant money in the bank.

A flexible, dynamic pricing strategy, in which all the channels are priced independently according to demand, gives hotels the best of both worlds. The lowest, fenced rates are reserved for direct bookers in the loyalty club, while retail rates can still be set at a price on an OTA that yields the highest possible profit that still converts into a reservation.

In the latter case, a property will still benefit from the so-called billboard effect. I would caution that the ETTSA's report overrates the importance of that effect, though. Even the original research from Cornell University's School of Hotel Administration, first published in 2009 and revisited in 2017, said the benefit of direct bookings first discovered on an OTA is a range from as little as 5 percent to as much as 35 percent. That's not very precise!

Neither is the last figure in the report that I would dispute: the ETTSA's statement that distribution via OTAs is "100% risk-free," because commissions are only paid on bookings and are "entirely success-based." Hotels always risk forking over a bigger cut of profits that they could have kept with a better revenue strategy.

The most important thing for hotels to measure when they close their books for the day is the money they take to the bank. They should exert as much control over those numbers as they can with a diverse distribution strategy.

Patrick Bosworth is CEO and a co-founder of Duetto, hospitality's Revenue Strategy Platform, based in San Francisco. Prior to starting Duetto, he was director of yielding and business strategy for Wynn Las Vegas.

Read More On

Distribution OTA Channel Management Pricing

Duetto