

Articles / Whitepapers

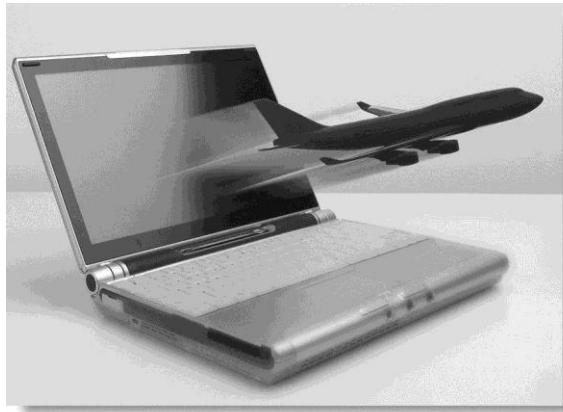
Practice: Marketing & Technology

Topic: Distribution Trending

Biz-Changing Trends in Travel Distribution

/ Part two of two

In part one we identified and discussed some of the broader and more persistent trends in travel distribution over the last several years of increasing rates, occupancy, RevPAR and profits.



By Mark G. Haley

In this article, part two of two in this series, the same trends are discussed with some of the true thought and practice leaders in the industry.

There are probably a dozen trends of varying durations that we could examine.

For the purposes of this series, we chose the following four key business-changing trends that have shown some clear consistency and persistence over time:

1. Transaction volume continues to shift to electronic channels, particularly to the Internet.

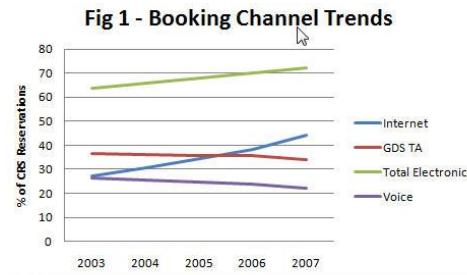
2. The growth in Internet volume, particularly direct Internet transactions, is at the expense of voice channels and third-party channels.

3. Integration of transaction-oriented booking engines with rich site design, search engine optimization and customer relationship management techniques drive trial by new customers, elevate the dialog with existing customers, and increase share of mind and wallet.

4. Consolidation within the distribution industry continues, as niche players need to combine to gain meaningful scale and larger players acquire broader capabilities.

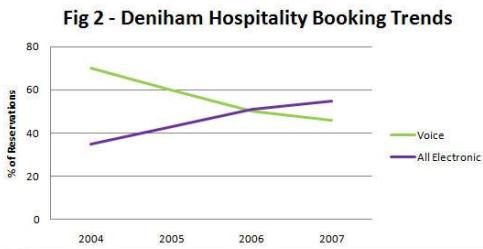
Transactions Continue to Shift to Electronic Channels, Especially Internet

As noted in the last issue, the proportion of reservations via electronic channels continues a steady up-and-to-the-right march over time. In recent years, most of this growth has come from the Internet segment. See Figure 1, updated from last issue's graph with full year 2007 figures, for more detail on an industry-average basis as provided by TravelCLICK.



Omni's VP of revenue management Tom Walker found that Omni's experiences are certainly consistent with the industry trends and said, "Rate parity across channels becomes more critical as the percent of electronic business continues to grow."

Menka Uttamchandani, director of business intelligence for Denihan Hospitality Group, said that Denihan's current state certainly approximates the industry average. "We certainly got there by a different route," she said. She elaborated by discussing how, largely due to Denihan's relatively young brands, its curves have shown much steeper shifts than the industry overall, ramping from 35 percent in 2003 to 55 percent last year. (Figure 2.) She noted that Denihan tracks e-mail reservation requests as an electronic segment in addition to GDSs, third parties and direct online channels.



Her colleague Alex Zesch, director, interactive marketing and development for Denihan, observed that the company saw a great deal of variation between properties in its portfolio by segment. In general, the more luxury and upscale Denihan properties tend to have relatively more voice transactions than the more mid-scale assets. The clear implication for any hotel company is that understanding those differences is essential in crafting marketing and revenue management strategies appropriate to each individual hotel and channel.

While both noted the high value placed on relationships with vital third-party distributors, for both Omni and DHG the underlying strategy is about driving direct relationships with hotel guests.

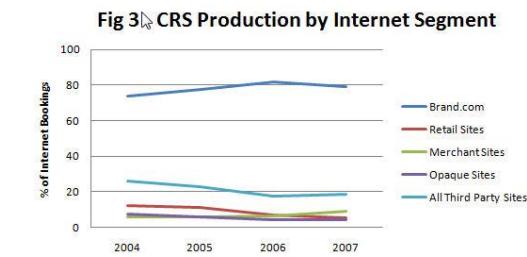
Denihan tracks booking channel changes over time by the same repeat guests. It has found a bi-modal distribution where many customers that book via a third-party the first time will make a voice-direct reservation the second time, while many others will shop via an Internet third-party again the second time. This response suggests a high-value strategy of channel conversion, getting those consumers to book direct online for that return visit.

Growth in Internet Volume at Expense of Voice and Third Parties

Also shown in Figure 1, this growth in Internet volume has come in tandem with decreasing voice channel reservations, dropping from 26.2 percent five years ago to 22.3 percent last year (as shown by TravelCLICK's eTRAK.) Interestingly, central reservations office managers report that more than half of callers have previously researched their needs online and simply want to complete the transaction when they call, rather than asking about locations, rate and availability.

GDS reservations from travel agencies have stayed pretty flat in recent years, around 35 percent, but tailed off in 2007 to 32.3 percent, according to TravelCLICK. Denihan reports a steady, consistent trend in growth from the GDS-TA channel over recent years. With an average 30 percent room rate premium, the incremental revenue more than covers commissions and GDS fees, while providing a rich source of new guests trying the brands for the first time.

Where it gets interesting is when one goes inside the Internet channel and looks at production by segment as shown in Figure 3, also updated from last issue with full year 2007 figures from TravelCLICK.



Walker said that Omni's core strategy here is to enable any transaction that can be done with a telephone call to be done online. This extends to transient and group reservations as well as loyalty program interactions, and even online check-in, prompted by an e-mail invitation sent the day prior to arrival to complete the check-in process on-line, a nice segue to our third trend of interest.

Integration of Booking with Site Design, SEO and CRM Activities

Last issue we discussed how hotel companies have evolved their online presence from storefront brochureware to transaction-oriented booking engines to integrated platforms encompassing search engine optimization, search engine marketing

(SEO/SEM) and customer relationship management (CRM). Walker observed that one way Omni and most other hotel companies have driven this trend includes assigning a head count to it. Omni has a dedicated e-commerce department with seven people in it. He explained that all of its CRM/loyalty program features are delivered online as well as off-line.

Denihan has taken another step, enabling the guest to customize their experience in ways practical (choice of pillow) and whimsical (having a rubber ducky delivered to the room at bath time). See Figure 4 for a screenshot from the Affinia brand's loyalty site, myaffinia.com. This site is driven by DHG's leading-edge CRM platform, MAGIC 2.

Denihan also is deep into the social networking phenomenon. The company has treated TripAdvisor as a partner for years, and actually posts RSS feeds from TripAdvisor reviews onto each hotel's Web site. Denihan took the lead in working with TripAdvisor to bring this feature to market, and manage it closely with daily monitoring in each hotel and mandatory responses to all negative reviews. Denihan also drives the positive, by engaging in responses and interactive dialogs with a percentage of positive reviewers.

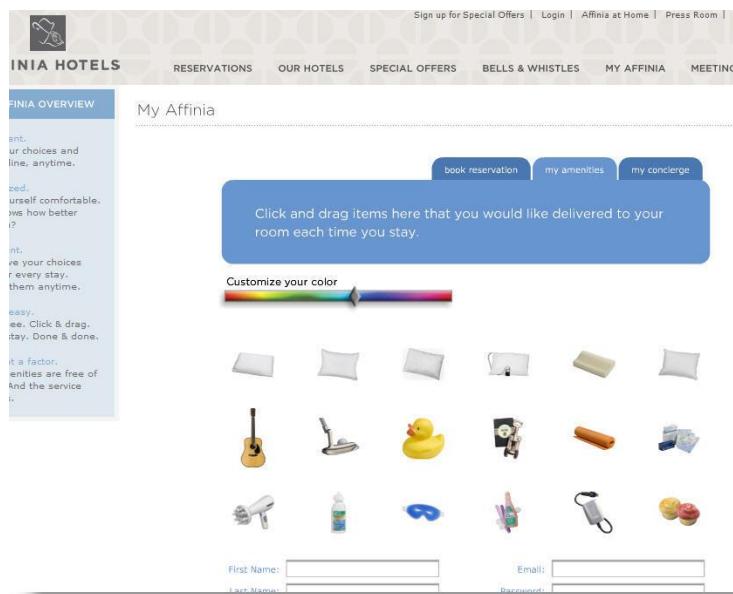


Fig 4 – myaffinia.com

Industry Consolidation

In part one of this series, we wrapped with a discussion of consolidation trend on the distribution side, with larger companies swallowing up smaller ones as they gain traction in the marketplace.

Walker observed there seems to be as much proliferation as consolidation, with new sites popping up all the time. He said connectivity is a real challenge for the smaller sites. Omni sees strong interfacing capabilities essential for bringing a distribution partner online in order to minimize administrative overhead and ensure the all-important rate parity commitment.

Zesch from Denihan said more competition is better than more consolidation, and that more choices benefit hotel companies as well as consumers. ■

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