



Building a De-Commoditization Strategy in Hospitality

By Max Starkov and Jason Price

In 2007, over one-third of all hotel bookings will be generated from the Internet in North America. This dramatic channel shift has created unprecedented price transparency and price-driven marketing in hospitality, thus further commoditizing the hotel product. How are hoteliers handling the increased commoditization of the hotel product, especially in the current rate parity and best rate guarantee environment? How can hoteliers de-commoditize their product offerings and provide a unique value proposition to the hotel customer?

Background

Commoditization of hotel product has occurred over the past eleven years or so, largely because of the unprecedented price transparency brought on by the Internet and the unhealthy industry practices of competing online on price and price alone. In addition, third-party online intermediaries and their price-focused marketing initiatives have been responsible for the further commoditization of hotel products and services. Here are several important developments in distribution in hospitality that have contributed one way or another to commoditization of the hotel product:

- The shift from GDS, call center, and the offline channel to Internet Distribution, which means a shift toward complete price transparency and easy “shopping around” of hotel rates and offerings.
- Working with third-party online intermediaries that propagate the Web with price-driven hotel offers.
- Rate Parity across all distribution channels has become the industry norm over the last 5 years. Though a highly positive move aimed to prevent price erosion, rate parity has contributed to the commoditization of the hotel product and services.
- Best Internet Rate Guarantee has become the industry norm—this is good news. The bad news is that every player in the industry offers best rate guarantees, and this marketing aspect has stopped being a differentiating factor.
- Matching the rates of the hotel’s comp set has become the industry norm. Rate comparison reports provide a quick snapshot of the hotel comp set’s current, 30- and 60-day out rates, so maintaining this “comp set rate consistency” has never been easier.

Commoditization of Hotel Product and the Travel Consumer

Just imagine how the hotel world looks through the eyes of the average travel consumer:

- You find practically the same rates for comparable hotels (same room type/stay period) in any destination (i.e. same rate for midscale limited service hotels, same rate for economy hotels, same rate for full service hotels, etc.)
- You find the same rates for the same hotel (same room type/stay period) whether you research the hotel’s own website or Expedia and Orbitz, call the hotel 1-800 number or speak to a travel agent.

Under the scenario described above, how would the average travel consumer select a hotel? Obviously, additional factors play in the property selection process:

- Familiarity with the property (i.e. return guests, family and friend referrals, etc.)
- Brand recognition (i.e. strength of the brand, etc.)
- Customer retention programs in place (i.e. reward programs). Loyalty programs are very popular with travelers and especially with people who book online. Forrester reports that over 80% of Online Bookers belong to some kind of travel loyalty program, and more than 60% to a supplier-sponsored one. The problem is that many travel consumers belong to several reward programs, including the ones that belong to your comp set.
- Last, but not least, the “value proposition” of a particular hotel or hotel offering. In our view this is the most important single factor to facilitate the decision process. This factor alone is as powerful as all other 3 factors combined.

Brand enhancement and appealing customer retention programs are expensive, long-term objectives. Providing unique value proposition to the potential customer and differentiating

your hotel product from what the competition is offering are much easier initiatives to implement.

Aspects of the De-Commoditization Strategy in Hospitality

A comprehensive De-Commoditization Strategy has the important goal of providing a unique value proposition to hotel customers. This strategy identifies unique aspects of a hotel product and destination, and develops a differentiated approach to a hotel's key customer segments. This strategy allows hoteliers to create unique specials and packages, event-related getaways, seasonal promotions, and launch marketing initiatives that provide unique value to the customer.

- A robust de-commoditization strategy involves the following:
- Focus on the value side of the Price vs. Value Equation
- Differentiation of the hotel product offering from offerings by the comp set
- Differentiation of the hotel offering from the indirect channels (i.e. third-party online intermediaries)
- Differentiated approach to the hotel's different key customer segments (i.e. family travel, business travel, meeting planners, wedding planners, etc.)

Back to Basics: Value vs. Price Equation

As described above, focusing on the price side of the Value vs. Price Equation is the main driver toward commoditization in the hotel industry. What should hoteliers do to change the current situation?

- Stop competing on price only. Hoteliers will never be able to attract and retain more sophisticated travel shoppers and more affluent customers if they compete on price alone.
- Re-focus the hotel product offering and marketing on the value side of the Value vs. Price Equation.
- When designing the hotel marketing strategy, create unique hotel offers based on unique product attributes and attributes in the local environment.
- Create distinctive product offerings designed to provide a unique value proposition to your hotel customers, such as suite specials and romantic getaways to boost sales of suites and hotel packages such as family packages, weekend getaways, museum packages, seasonal packages, golf packages, and spa packages, to name a few.

Specials & Packages: Hotelier's Important De-Commoditization Tool

Travel consumers look for product uniqueness, special opportunities and value. Creating unique specials and packages, event-related getaways, seasonal promotions and other marketing initiatives that provide unique value to the customer should become an important aspect of the hotelier's de-commoditization strategy.

According to typical traffic analytic reports of HeBS clients, Specials & Packages, or Special Offers, is one of the top three most popular visited pages. This suggests consumers are shopping for value. Our advice is to give them value.

A recent online survey of visitors to a major hotel brand website, conducted by HeBS, underscores the importance of Special Prices & Promotions, which together with the Best Internet Rate Guarantee, comprise the most important reason for people to book on the hotel brand site:

“Which of the following would influence you to book directly on the brand website rather than on other travel web sites (e.g. Expedia.com, Travelocity.com)? Please select all that apply:”

Here are the results (all are statistically significant):

Best Internet Rate Guarantee:	71%
Special Prices & Promotions:	70%
Earn points/rewards:	54%
Easier to make/change reservations:	51%
Better descriptions of rooms:	47%
Ability to find more info about the hotel:	45%
More photos of hotel/rooms:	39%
Ability to find more info about the location:	28%
More info on cancellation policy:	20%
Can Book packages with hotel, air, car, etc.	8%

A hotel special offer or promotion creates not only strong value proposition to potential customers, but a highly marketable product the hotel can now promote via search marketing, email marketing, online sponsorships and display advertising, and in the print media.

Specials and packages, mandated by the major brands, have become the norm in the industry. Good examples for brand-wide special offers are Marriott’s “Stay for Breakfast” special package program for the family market, and Choice Hotels’ “Summer Getaways” for the leisure market. Recent market research conducted by HeBS found that there is at least one brand-wide special offer on 9 of the 10 top hotel brand websites at any given time. Many major brands are running 2-3 brand-mandated special offer programs at any given time.

Case Study: How do major hotel brands perform in the Value vs. Price equation?

HeBS answered this question by evaluating 7 major hotel brands. The conclusion was that most major hotel brands were underperforming with their product offerings. They consistently ignored the creation of differentiated products and lost sight of offering unique value.

HeBS uses its proprietary CyberScore system to evaluate the unique value proposition and availability of brand-mandated and brand-wide specials and packages on the major hotel brand websites. Evaluated were a total of 10 critical features that best represent the value equation. The maximum score is 100 (10 features, 10 points each):

Starwood ranked first with 88 out of 100 points (88% utilization of best practices), followed by Intercontinental Hotel Group (76%) and Marriott and Best Western with 60 points and 60% utilization of best practices. The remaining 3 brands scored in the 22%-49% range.

Starwood and Intercontinental Hotel Group best illustrated the Value side of the equation by offering a diverse range of brand-mandated special offers, and unique specials and packages. This value proposition is reflected not only on their website, but in brand recognition, word of mouth, increase in revenues revenue growth, and shareholder value.

Conclusion:

The Value vs. Price discussion affects most industries and the resounding conclusion has always been that consumers choose value. The unique value proposition intertwined in the product offering, value of service, honesty of price, and the additional touch of value fights commoditization. Competing on price and price alone, particularly in the service industry is a last ditch effort. Nowhere is this more important than in the hospitality industry where pricing has become so competitive.

The trend toward commoditization of the hotel product is a fact of life, due to a dramatic shift to the online channel and its complete price transparency, price-focused online marketing, third-party online intermediaries, rate parity across all channels, and best rate guarantees.

Working hard against further commoditization of the hotel product and services should become an important objective in 2007. Hoteliers have to identify unique aspects of the hotel product and destination and develop a unique value proposition to the hotel customer, utilizing a differentiated approach to key customer segments (i.e. family travel, business travel, meeting planners, wedding planners, etc.). A good start is creating unique specials and packages, event-related getaways, seasonal promotions and other marketing initiatives that provide unique value to the customer.

Consider seeking advice from an experienced Internet marketing hospitality consultancy to help you build a robust De-Commoditization Strategy and focus your marketing initiatives on the value side of the Price vs. Value Equation.

About the Authors and HeBS:

Max Starkov is Chief eBusiness Strategist and Jason Price is EVP at Hospitality eBusiness Strategies (HeBS), the industry's leading Internet marketing strategy consulting firm for the hospitality vertical, is based in New York City (www.hospitalityebusiness.com). HeBS has pioneered many of the "best practices" in hotel Internet marketing and direct online distribution. The firm specializes in helping hoteliers build their direct Internet marketing and distribution strategy, boost the hotel Internet marketing presence, establish interactive relationships with their customers, and significantly increase direct online bookings and ROIs.

A diverse client portfolio of over 450 top tier major hotel brands, multinational hospitality corporations, hotel management and representation companies, franchisees and independents, resorts, casinos and CVBs and has sought and successfully taken advantage of the firm hospitality Internet marketing expertise. Contact HeBS consultants at (212)752-8186 or <mailto:info@hospitalityebusiness.com>.