



Internet Marketing and Distribution Trends Impacting the Hospitality Industry from 2007-2010

By Max Starkov and Jason Price

What will happen to traditional and online distribution channels in hospitality in the next few years? How will the direct web channel outpace competitors and third-party intermediaries? With online travel growing, how do hoteliers get their fair share? These questions reflect important trends in the marketplace. Consider how these trends will impact your hotel, resort, and brand.

An estimated 1/3 of all hotel bookings will be done online this year, and another 1/3 will be directly influenced by online research and planning, but booked offline. By understanding current Internet marketing trends in hospitality, including travel consumer expectations and perceptions, hoteliers can enhance their web presence, and utilize the Internet as the most cost effective and up-to-date sales and marketing channel.

Background

In the past several years, we have all watched the remarkable growth of the online travel marketplace. With an increasing number of travel consumers doing travel research online (75% of adults in the US - TIA), gaining broadband Internet access at home and becoming more and more accustomed to doing business and transacting on the web, we will continue to see this growth across market segments at an ever increasing rate.

Here is the online travel adoption rate in 2005 and 2008:

	<u>2005</u>	<u>2008</u>
North America	42%	60%
Europe	15%	41%
APAC	9%	20%

(PhoCusWright 2007)

Hospitality: (USA, % of all bookings):	<u>2004</u>	<u>2005</u>	<u>2006</u>	<u>2007</u>	<u>2010</u>
U.S. Hospitality:	20%	25%	29%	33%	45%

(Merrill Lynch, PhoCusWright, HeBS)

This year, 40% of all leisure and 35% of business travel bookings will be done online. By 2010 over 50% of leisure bookings are expected to be online. The percentage of meeting planners researching and booking online is also growing at a rapid pace. An estimated 89% of planners are researching event locations on the web, and by 2008, 41% of all groups and meetings travel revenues will come from the Internet.

Direct vs. Indirect Online Distribution

The direct online channel will continue to be the main focus for hoteliers. The industry as a whole has realized that not only has the Internet become the preferred channel for travel consumers to plan and book lodging, but the direct online channel is the cheapest form of distribution. The shift from indirect to direct online distribution will continue to be a major trend in the next several years:

Overall for the industry (USA):	<u>2003</u>	<u>2005</u>	<u>2007</u>	<u>2008</u>	<u>2010</u>
Hotel Branded Websites:	53%	54%	60%	62%	65%
Intermediary Websites:	47%	46%	40%	38%	35%

(Merrill Lynch, HeBS)

In 2006 the major hotel brands enjoyed an above the average direct vs. indirect online ratio of 81.4% vs. 18.6%.

The Indirect Online Channel

What are the most important trends in the indirect online channel? To begin with, now is the time to start working with fewer third party intermediaries (TPI's), and at drastically lower margins (e.g. 15%-18%). Smart hoteliers deal only with TPI's that can access the hotel inventory electronically (through the hotel PMS, brand CRS, Pegasus or the GDS), and not via manual extranets. These hoteliers work in strict rate parity, use dynamic TPI margins (higher when you need the TPI's, lower when you don't), and prohibit TPI's from using trademarked property names for their PPC and search engine marketing campaigns.

Other ways to shift consumers from TPI's to the hotel website include unique product offerings found only on the hotel site (e.g. romantic getaways, bed and breakfast packages, etc.), and launching or enhancing the hotel loyalty program.

Consumer Generated Media

Consumer Generated Media (CGM) continues to grow in importance and popularity. Discussion boards and forums, blogs, social networks like MySpace and LinkedIn, customer review sites like TripAdvisor, and hotel-specific blogs like HotelChatter.com dominate the Internet today and have become an integral part of the travel planning process. In 2006, 28% of travel planners researched CGM sites vs. 4% in 2005.

Consumers, while becoming increasingly dependent on customer testimonials and reviews, will still need to read an official hotel description. While hoteliers need to monitor and react quickly to CGM postings, and must establish a corporate policy regarding CGM, it is still important to make sure the hotel's website is up to date, informative, optimized, and user friendly.

The Internet and Travel Consumer Perceptions

The Internet has changed forever the way consumers plan and purchase travel and access travel information. The credibility of information on a website is no longer automatically accepted. There is an "ideological clash" between "official" content (the hotel's own website, brochures, descriptions, traditional star rating, etc.) and CGM-related content (blogs, customer review sites, etc.). What do customers believe? The overly enthusiastic hotel descriptions on a hotel's own website, or the customer testimonials on TripAdvisor which aren't always so flattering?

Food for Thought: Credibility of hotel accreditation (star rating)

Campton Place Hotel:	Hotel class 5 stars
AAA	4 diamonds (out of 5)
Fodors.com:	3.2 stars (out of 5)
Frommers.com	2 stars (out of 3)
Expedia:	4 ½ stars (out of 5)
Trip Advisor:	4 stars (out of 5)
Orbitz:	5 stars (out of 5)

The Internet, and especially CGM, has introduced a new level of confusion as far as the star rating for any hotel is concerned. Which accreditation is more important? The standard 5-star hotel class rating? The 4-diamond AAA accreditation? Or the 4 star TripAdvisor CGM rating? For many savvy travel consumers, the most credible would be the hotel star rating they find on their favorite online service, the one they trust and regularly use. Not what the "official" hotel accreditation is.

eCRM and Building Interactive Relationships with Customers

eCRM must be a vital component of a hotel's Internet marketing strategy, as the majority of hotel customers are planning and booking their stays online. It is increasingly important to understand customer needs and their lifestyles, and build a marketing strategy based on those needs.

Establishing mutually beneficial interactive relationships with your customers is the ultimate goal of any eCRM initiative. Building interactive relationships with the customer consists of three critical lifecycle stages: Nurture -- Grow -- Retain.

To build a robust eCRM strategy in travel and hospitality hoteliers need to embrace new sophisticated tools and business practices in the following areas: increasing the knowledge they have about their customers, improving customer service at the online

research/planning/booking phase, personalization of the marketing and service delivery, developing new and more efficient customer needs-based marketing, and building customer loyalty.

Building Customer Loyalty on the Internet

Why does customer retention online matter? It costs 4-6 times more to attract a new customer than to retain a current customer. Existing customers are not only less costly to retain, but they also respond 4-5 times more readily to promotions and e-mail campaigns than new customers. It is important to extract more wealth out of your existing customer base by understanding customer needs and their lifestyles, and building a marketing strategy based on those needs. Knowing the customer, sending personalized messages, being there at every touch-point (planning, purchasing, service consumption and post-stay), and providing a unique value proposition leads to increased customer loyalty.

Contrary to some opinions, reward programs do matter. 80% of online bookers belong to a travel reward program and more than 60% belong to a supplier-sponsored program (Forrester Research). The ability to earn rewards is the reason why 55% of online hotel bookers prefer to book on the hotel's own website vs. a third party.

Behavioral Marketing

The Internet allows an unprecedented level of behavioral marketing. We can now monitor consumer behavior in all stages of the life cycle and personalize the brand message based on this behavior. Hoteliers can now target their marketing messages according to specific customer behavior, specific demographics, specific customer locations, and specific feeder markets. With the ability to target marketing messages, hoteliers can stop spending valuable dollars on those markets or campaigns that do not produce. This year eMarketers will spend over \$2 billion in behavioral marketing in the U.S. alone.

Mobile Technology

Not only creating mobile friendly hotel websites, but sending marketing messages via mobile technology is becoming more and more important in hospitality. 1 billion mobile devices were shipped in 2006. The majority of these new devices provide broadband Internet access. The ability to instantly identify a user's geographic location allows marketers to provide a highly personalized marketing message and experience.

Airlines already use this technology to provide travel alerts concerning weather changes and flight schedules. Mobile mapping capabilities, mobile search engines, and mobile advertising are just some of the areas of growth. Hoteliers need to monitor this trend and provide mobile hotel reservations and customer service.

Broadband and Rich Media

75% of active Internet users in the US use broadband at home and almost 100% of Internet users access broadband at work. This means faster download times, faster searches, more sites and pages viewed, and more rich media and applications possible.

Hotel websites must offer better imagery, higher display resolutions, and rich media more than ever. 80% of Internet users have 1024x768 or higher displays. To stay current, hotel websites must offer functionalities such as mapping, weather, event calendars, and CGM initiatives such as blogs and photo sharing.

Convergence Technologies

New technology is making it possible to break down barriers between technologies in hospitality. New, smarter technologies are available for revenue management, website analytical tools, reward programs, personalization, data-mining, eCRM, and interfacing to disparate technologies. Many web-based applications are increasing secure, user-friendly, and are dropping in cost. It will depend on the hotel's strategy and what it wishes to achieve.

The Internet and Hotel Valuations

A direct online distribution strategy is a measurable asset to the hotel. Cash flows influenced by the online channel will be scrutinized more closely in the upcoming years as asset managers, developers, and hotel buyers and sellers seek to build, grow, sell, and flip properties. For those with winning strategies on the web, the valuation can be influenced upwards of 10 to 20 percent, while those with a weak web presence can expect a steep discount in their valuation in years to come.

Conclusion

Forecasting trends is a tricky business - especially in hospitality. Our goal here is to simply point out a collection of trends and best practices that seem to resonate across many hotel companies. Either these companies have inquired about these practices, or have begun addressing some of the trends described above, some even turning into meaningful results.

At your next strategy session for your hotel, resort, lodge, collection of hotels, or hotel brand, consider how these trends may influence your marketing efforts and grow the online channel. Start by applying the trends identified and seek an experienced consulting firm to help you along the way.

Note: Mariana Mechoso, Director, eMarketing Services at HeBS, also contributed to this article.

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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>.