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The OTA Billboard Effect or the Lazy Man's Approach to Hotel Distribution

| By Max Starkov

Hoteliers need to shift away from the OTA distribution, also known as hoteliers' lazy man's approach, and invest in a robust direct online channel strategy accompanied by adequate marketing funds in order to take advantage of the Internet channel.

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Background

The existence of the so-called billboard effect is not a new marketing phenomenon. It has existed long before the online channel became a reality. As confirmed by many studies, any marketing exposure by a hotel produces a billboard effect:

- When you launch a banner advertising campaign on a destination or relevant to your hotel sites, this provides a boost to your website revenues, though just a few people book directly from your banners, i.e. most of the bookings come from post-impression vs. post-click activity.
- When you purchase a full-page ad in the *New York Times* travel section, or in *Travel + Leisure* Magazine, there would be a tremendous billboard effect that has residual benefits for many months to come.
- When you launch a paid search campaign on Google and your listing generates hundreds of thousands of free impressions, there is a tremendous billboard effect as well.
- When you send an emailer to the property opt-in list, people will be referencing, forwarding and booking from this emailer for months to come.

The OTA Billboard Effect

Lately Expedia reps have been aggressively using a new Cornell Hospitality Report, namely "Search, OTAs and Online Booking: An Expanded Analysis of the Billboard Effect" to convince hoteliers that they should use Expedia in order to generate more bookings from the hotel's own website due to the so-called "Billboard Effect."

The Cornell Report, based on data from Expedia and InterContinental Hotel Group (IHG) from 2008-2010, is a continuation of a previous report on the subject, heavily supported by Expedia. The report's analysis determined that when an IHG property was listed on the first results page of Expedia, this created an increase of between 7.5% and 14.1% in bookings for the same property on IHG's own brand website. In other words, this is a confirmation for Expedia's billboard effect, which hoteliers should take into consideration when griping against the 25% plus merchant OTA commission. When these "billboard effect bookings" are taken into consideration, Expedia's commission "would effectively be reduced to single digits," states the Cornell Report.

Hoteliers, rejoice! We have found the perfect recipe for success: we do nothing as far as marketing the property website is concerned. Instead, we plaster Expedia with our sales promotions and wait for the travel consumers to come to our own website and book.

As discussed, the billboard effect is not strictly an OTA territory. In my view, the Cornell Hospitality Report is a one-sided research project, very proactively supported by Expedia, similar to the first report on the billboard effect published in 2009. Cornell, the finest hospitality institution in the U.S., should know better than to come up with this half-baked "scientific" research, which does not account for the complexities of hotel distribution as well as the "digital information cloud" we all live in and the resulting marketing and distribution channel convergence which directly affects the purchasing habits of today's hyper-interactive travel consumers.

This report makes conclusions that do not take into account, among many other things, the following:

Complex Travel Planning Patterns in Hospitality

Many surveys show that people are shopping around on a number of hotel and travel websites before narrowing down their search. Typically in hospitality, these sites include a hotel search on a search engine e.g. Google (65% market share), an OTA website, TripAdvisor, the hotel's own website, etc. Therefore jumping from an OTA website to a hotel branded website and vice versa is at least partially due to particular travel research patterns unique to the users and not due to the so-called billboard effect:

- Step 1: "I always search on Google first where I identify a property I like"
- Step 2: "I go to Expedia and see what the rate for this property is"
- Step 3: "I visit TripAdvisor to read my peer reviews for this hotel"
- Step 3: "I visit the hotel website and book if I like the location, rate and what I have read and seen about this hotel"

The Rate Parity Effect

Typically, and Internet users already know this well, Expedia places a hotel on the first search results page when it has a particularly good rate for this property e.g. a special rate, a 24-hour or a 72-hour sale In this day and age of strict rate parity, particularly in the case of branded hotels as in the new Cornell study, the hotel has, due to mandated rate parity, the same special rate or the same 24-hour or 72-hour promotion on its own website. So the fact that there is a natural uptick in bookings on the hotel website during the exact same time the hotel is on Expedia's first search results page is at least partially due to the rate promotion, and not due to the so called billboard effect.

<u>Let's Examine Expedia's Billboard Effect</u>

So how big is the exposure for an average property on Expedia.com? In June 2011, Expedia.com had 19,066,141 unique visitors (Compete.com). In the same time, Expedia featured 135,000 hotels on its website, i.e. 141 unique visitors per hotel per month. In other words, on average, the customer engagements any hotel can get on Expedia.com is with 141 unique visitors.

Naturally, Expedia.com's users are not evenly spread among the 135,000 hotels featured on the site. Some hotels get more visits based on property location, brand recognition, rate, or some users visit multiple property listings on the site. Whatever the case is, even if you believe that your hotel gets double and triple and quadruple attention by Expedia users, this number pales in comparison to the potential customer engagements you could achieve via the direct online channel.

We believe the billboard effect from a property's exposure on Expedia.com is limited in scope, and has a far smaller effect on the hotel revenues than the property's paid and SEO initiatives on Google, email marketing, mobile marketing, website optimizations, etc.

<u>Let's Examine the Billboard Effect from the Direct Online Channel</u>

By utilizing the direct online channel and multi-channel marketing initiatives, any 100- to 150-room independent or branded hotel on average:

- Should have a minimum of 6,000-10,000 visitors to the hotel website/month
- Should send out a monthly email marketing piece to the hotel opt-in list of min 5,000-10,000 email recipients
- Should get an exposure via paid search:
    - min 1,500-2,000 visits from PPC ($1,250-$1,500 monthly budget)
    - over 100,000 -133,000 free impressions (people who have seen the PPC listing) at 1.5% CTR
- Should get at least 500,000 impressions from its Google Re-Marketing/Re-Targeting campaign
- Should communicate at least 3-4 times/week with its 1,000-1,500 Twitter followers
- Should communicate at least 3-4 times a week with its 750-1,250 fans on Facebook
- Should get at least 1000 mobile visitors and generate a ton of reservation calls from its mobile website.

In other words, by unleashing a marketing promotional campaign simultaneously across all available marketing channels, thus producing a compounded effect and far greater returns than each individual marketing initiative, the hotel could realize over 650,000 customer engagements/per month. Many of these will be realized repeatedly with potential customers across different marketing channels, which is the best recipe for customer conversion.

Compare this Direct Online Channel e billboard effect with the one via Expedia!

In the above we have not mentioned distribution cost. The following case study clearly shows that investing in the direct online channel creates not only long-term customer engagements, but is far more cost-efficient for any hotel:

Case Study: How a Boutique Hotel Could Add a Cool $300,000 to the Bottom Line

What are the distribution costs per channel for Independent Hotels & Resorts?

- Direct Online Channel (Hotel Brand Website): $8.50 - $12.50 per booking (HeBS Research, based on 250,000 bookings in 2010 via hotel websites from a sample of HeBS' full-service hotel client portfolio).
- OTA Channel: $75 - $150 per booking. Based on average 25% merchant commission, LOS of 2 nights and ADRs ranging from $150 - $300/night.

On average, it is 10 to 15 times cheaper to sell your rooms via the direct online channel compared to the OTA channel. On an annualized basis, just imagine what the difference in distribution cost constitutes for a typical 150-room boutique hotel:

- Direct Online Bookings (60% of online bookings)=5,173
    - Cost = $51,738 at $10/per booking
- OTA Bookings (40% of online bookings)= 3,450
    - Cost = $345,000 at $100/booking (25% OTA markup)

(Calculation based on 70% average occupancy rate, ADR of $220.00 and LOS two room nights. 45% of total bookings or 8,623 bookings being made via the Internet. Industry average 60:40 direct vs. indirect online ratio)

If the hypothetical 3,450 OTA bookings are instead made via the direct online channel at $10 each, the bulk of the OTA distribution cost, namely $310,500 would go directly to the hotel's bottom line. Name any hotelier who would not like that in 2011!

The Bottom Line for Hoteliers:

In our view, OTA distribution is hoteliers' lazy man's approach to hotel distribution. Hoteliers need to invest in the direct online channel. Hoteliers need a robust direct online channel strategy accompanied by adequate marketing funds to be able to take advantage of the steady growth in the Internet channel and the shift from offline to online bookings in hospitality due to declining GDS and voice channels. Hoteliers must carefully employ ROI-centric initiatives including website redesign, website optimization and SEO, SEM, email marketing, online media and sponsorships, mobile marketing and proven social media initiatives.

About the Author and HeBS:

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HeBS Digital has pioneered many of the "best practices" in hotel Internet marketing, social and mobile marketing, and direct online channel distribution. The firm has won over 130 prestigious industry awards for its digital marketing and website design services, including numerous Adrian Awards, Davey Awards, W3 Awards, WebAwards, Magellan Awards, Summit International Awards, Interactive Media Awards, IAC Awards, etc.

A diverse client portfolio of over 500 top tier major hotel brands, luxury and boutique hotel brands, resorts and casinos, hotel management companies, franchisees and independents, and CVBs has sought and successfully taken advantage of the firm hospitality Internet marketing expertise offered at HeBS Digital. Contact HeBS Digital's experts at (212) 752-8186 or info@hospitalityebusiness.com.