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Swiss Hotel Distribution Study: Are OTAs winning the customer race?

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Direct distribution still important, but decreasing

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- **Direct bookings** (telephone, fax, walk-ins, e-mail, Web form) without intermediaries are still the dominant channels in 2014 for hotels in Switzerland, even though their proportion has been steadily decreasing for a couple of years.
  - In 2014, 57.4% of the bookings in Switzerland were generated via direct sales channels, against 62% in 2012 and 75% in 2002.

- **Traditional booking channels** such as telephone, letter or fax, as well as sales through tourism partners (travel agencies, tourism boards) have been declining for the last 10 years, although the diminution process of these channels is slow.
  - The market share of **tourism organisations (DMO, RTO, NTO)** has continually decreased over the last years. It represents, in 2014, 4.1% of the bookings in Switzerland, whereas in 2006, 6.5% of sales were made through tourism organisations.

Online Distribution Channels: the Power of OTAs

- **Online distribution** has become an important channel for the Swiss hotel industry. Overall, **27.2%** of bookings are generated through real-time online channels (OTA, GDS, real-time booking on hotel website).
- **OTAs** clearly dominate the online distribution market (24.2%). They have multiplied their market shares in the last few years and seem to grow continuously.
- Priceline (**booking.com**, Agoda), Expedia (incl. hotels.com, Venere) and HRS (incl. hotel.de, Tiscover) account roughly for 90% of this market. With 70.5%, Priceline holds a dominant position on the OTA market in Switzerland and generates overall 17% of all bookings.
- Four out of ten hotels generate more than 25% of bookings via OTAs and every tenth hotel experiments more than 50% of its sales by OTAs. This point underlines the strong dependency of many Swiss operators on these intermediaries.
- The share of **real time bookings** on hotels' own websites has reached 8.3%, which is twice the value observed in 2006.

The Costs of OTAs

- In Switzerland, online booking channels (OTA, GDS, real-time booking on hotel websites, CRSs) generated **over 1 billion CHF of gross bookings in 2014**.
- For 2014, the **estimated total amount of commissions paid by hotels to OTAs in Switzerland is between 90 and 130 million CHF** (depending on the estimation approach).
- The average Swiss hotel spends, according to our estimation, nearly **30’000 CHF** per year on OTA commissions (roughly **700 CHF per room** and year).

Distribution Trends

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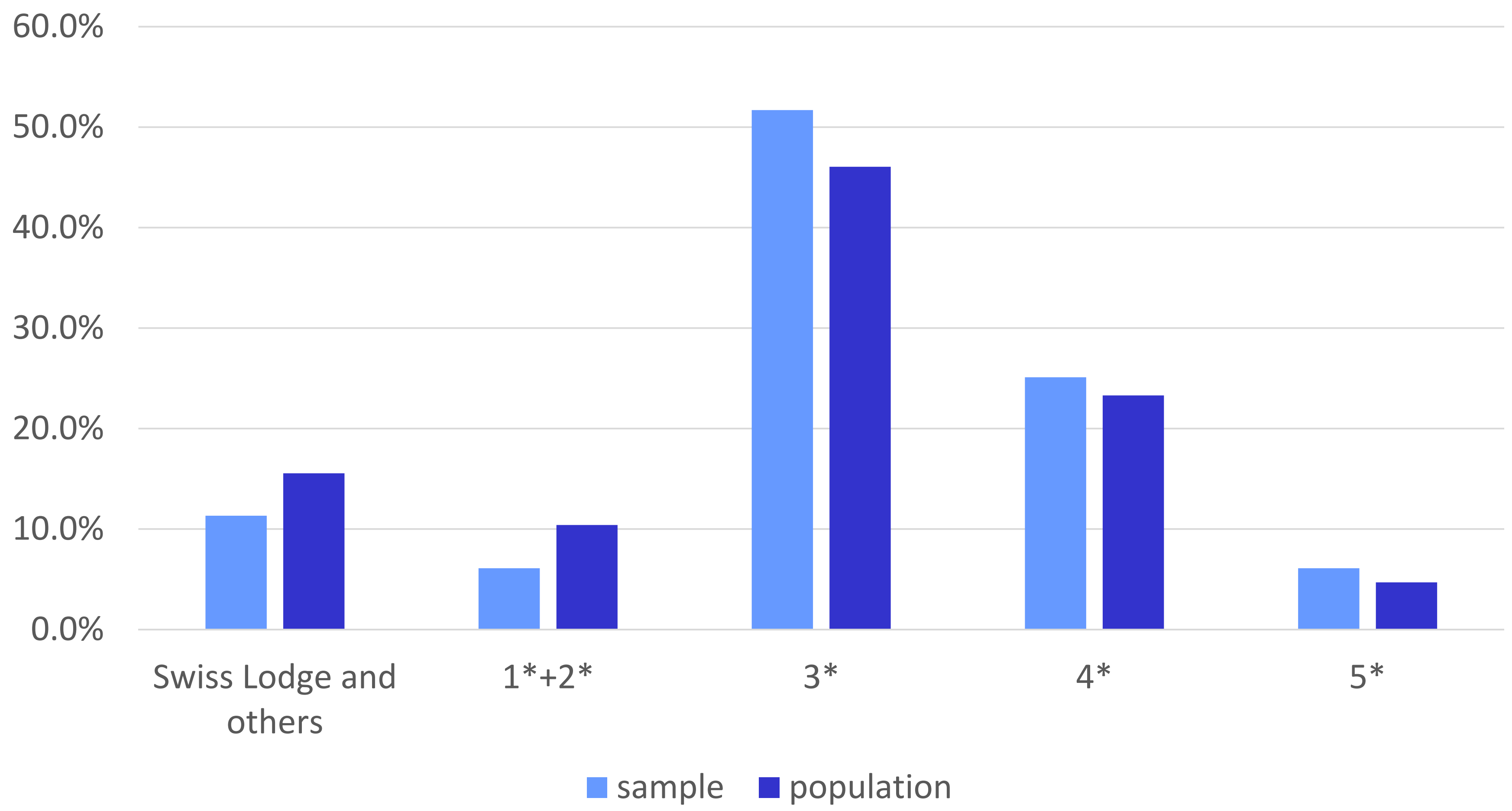
- **Mobile Internet**: Approximately 60% of the hoteliers asked use mobile sales channels, compared to about one-third in 2011. Most hotels have a mobile version of their website. One hotel out of ten has a mobile app (in most cases edited by a hotel cooperation or a chain)
- One out of four hotels is using a direct interface with a **meta-search engine** whereas 38% of hotels use the **Google Hotel Finder** actively.

The survey

Background of the Study

- The **Institute of Tourism** of the University of Applied Sciences Western Switzerland Valais (HES-SO Valais-Wallis) in Sierre conducted an online survey with the support of the Swiss hotel association (**hotelleriesuisse**) in order to get insights into the distribution trends in the hospitality sector.
- The online survey for the **reference year 2014** was conducted in January 2015 among 2000 member hotels of hotelleriesuisse.
- The results presented here are based on responses from **265 hotels** all over Switzerland. This corresponds to a response rate of **13%.**
- The sample reflects the structure of members of hotelleriesuisse regarding the classification of hotels.

Sample characteristics (star classification) compared to population



Distribution channels 2014

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Sample: n=257	Market share (in %)	
Direct - Phone	49.1	57.4
Direct - Mail / fax		
Direct - Walk-In (persons without reservation)		
Direct - Contact form on own website (without availability check)		
Direct - Email		
Direct - real time booking over own website with availability check	8.3	
Destination Marketing Organization (DMO) / trade associations	2.6	4.1
National Tourism Organization (NTO)	1.5	
Tour operator / Travel agency	5.3	10.7
Hotel chains and cooperations with CRS	0.8	
Wholesaler (e.g. Hotelbeds, Tourico, Gulliver, Transhotel, etc.)	2.1	
Event and Congress organizer	2.5	
Online Booking Agency (OTA)	24.2	27.2
Globale Distributionssysteme (GDS)	2.8	
Social Media Channels	0.2	
other distribution channels	0.7	0.7

Trends in Booking Channels in Swiss Hotels 2002-2014

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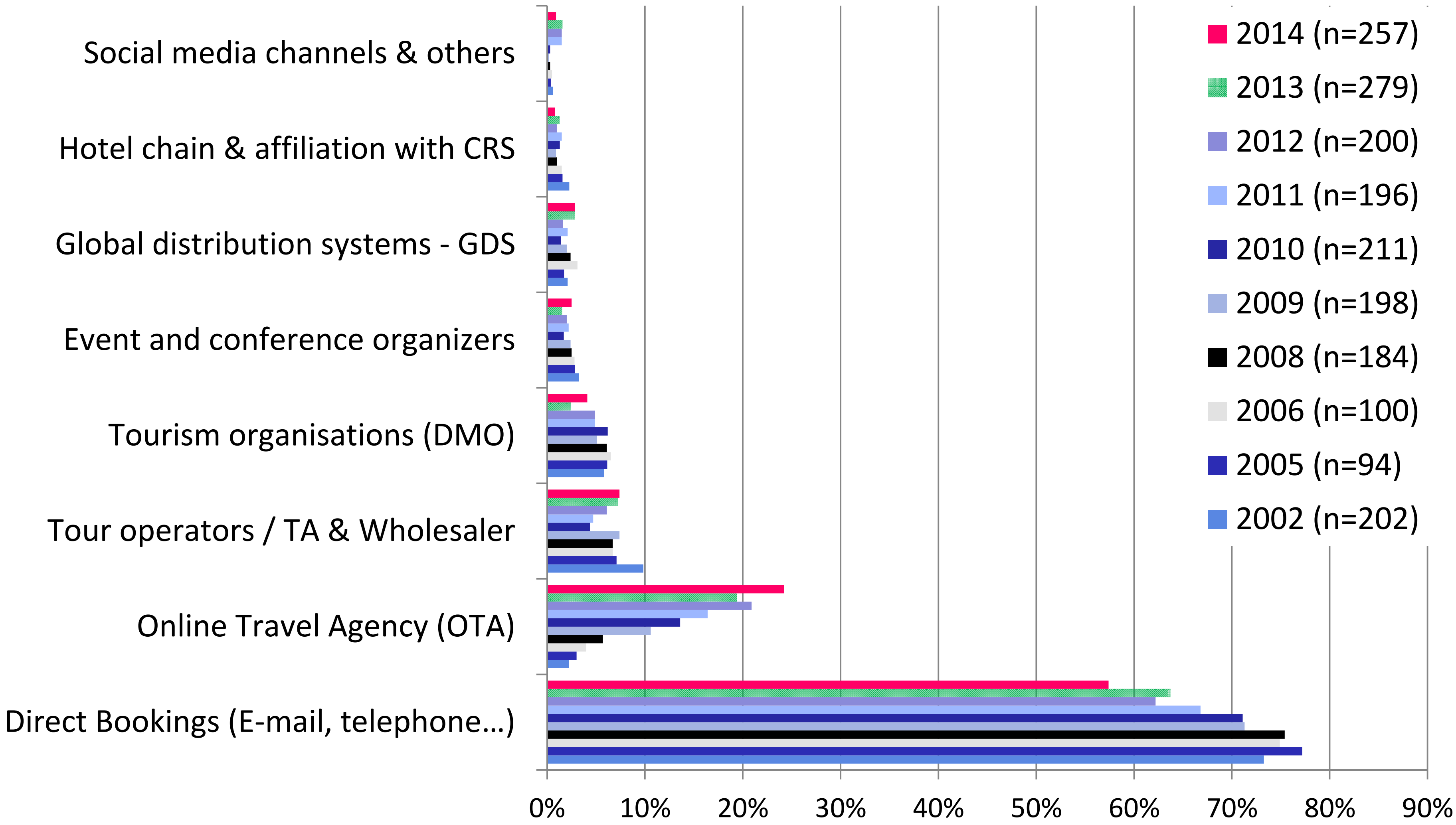

Attention: Market shares in % of ***bookings*** for 2002-2012 & 2014 and in % of ***overnights*** in 2013 !

Trends in Booking Channels in Swiss Hotels 2006-2014

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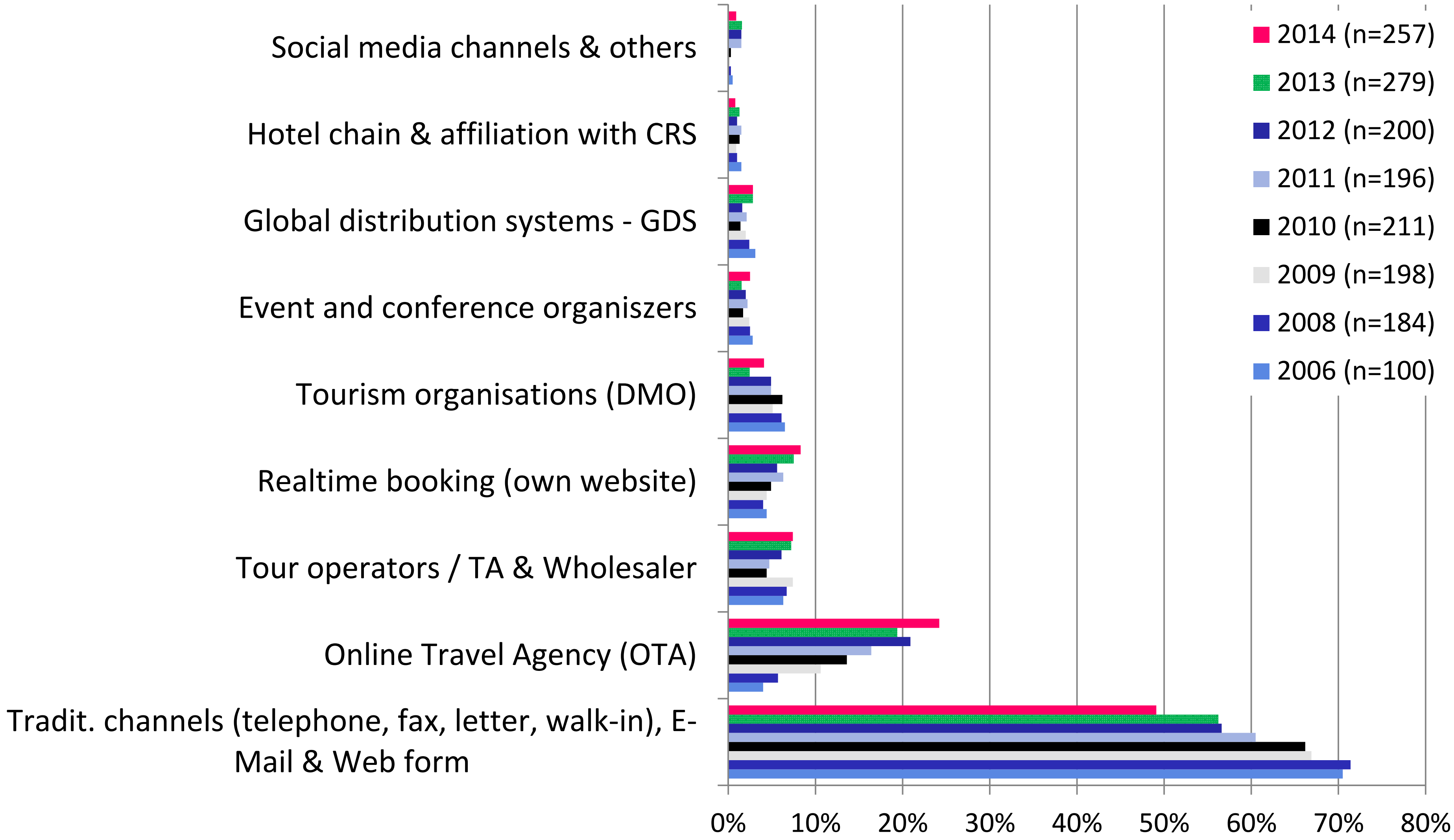

Attention: Market shares in % of ***bookings*** for 2006-2012 & 2014 and in % of ***overnights*** in 2013 !

Distribution Trends in the Swiss Hotel Sector 2002-2014

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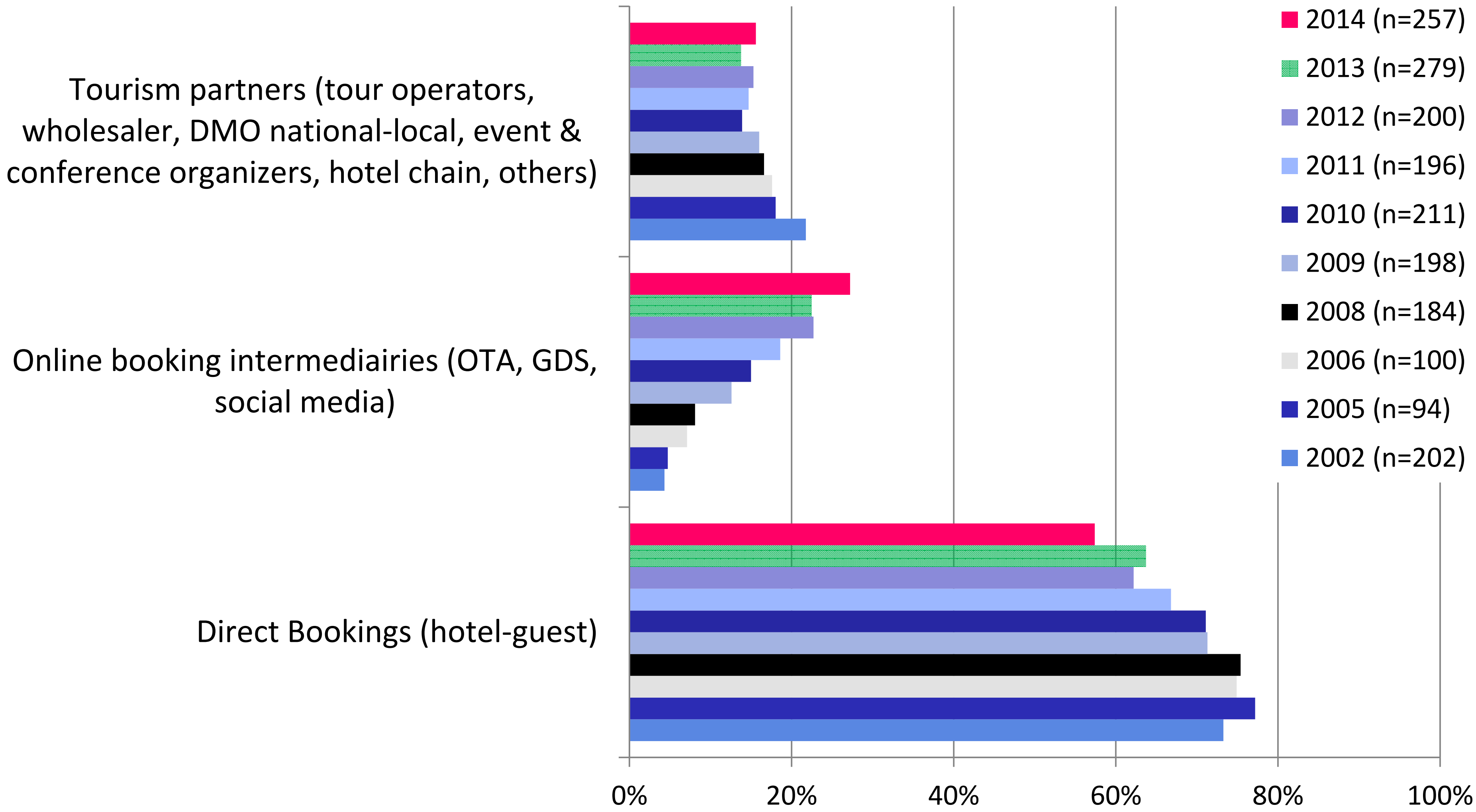

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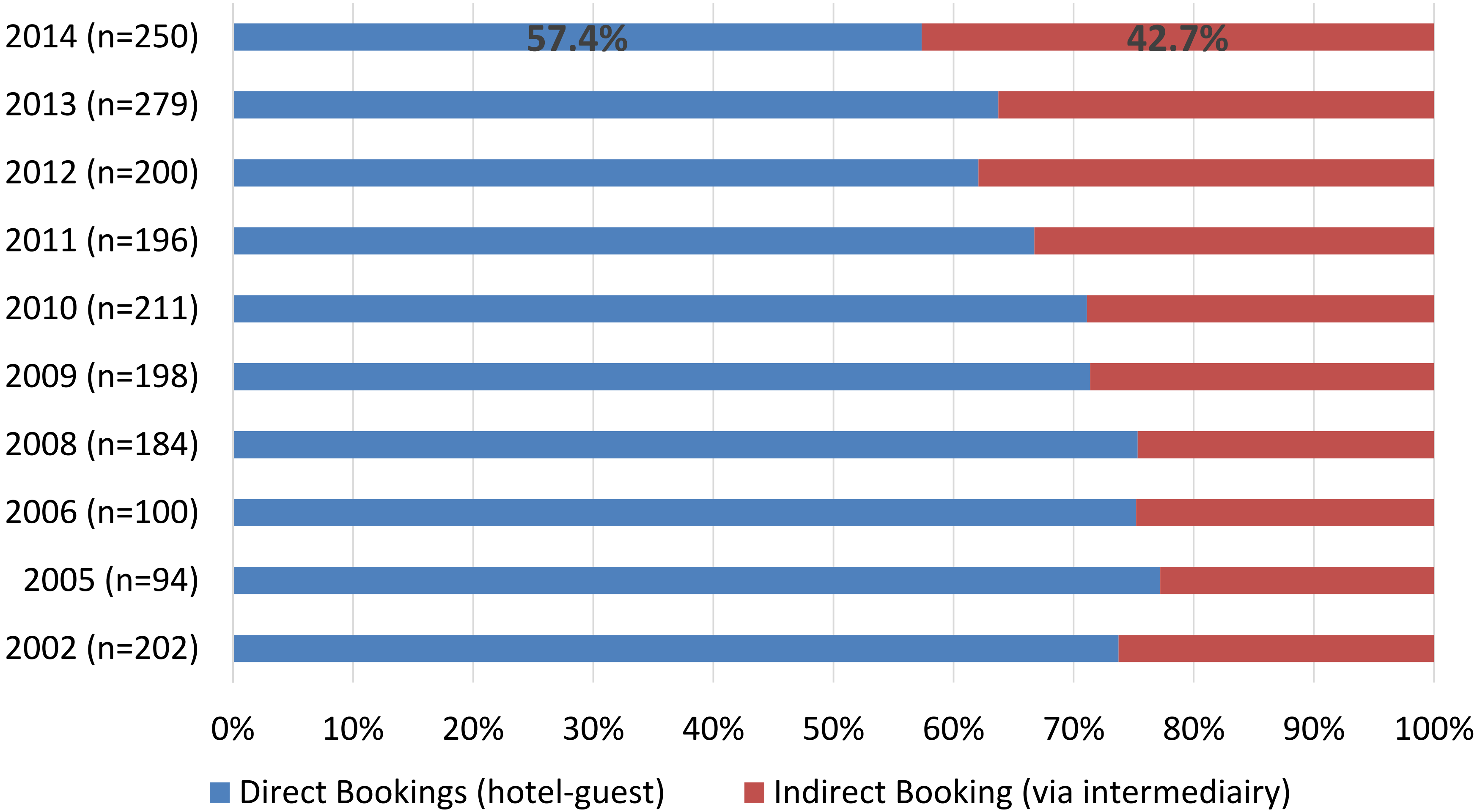

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Hoteliers' Comments on Distribution

Abhängigkeit zu OTA, Preise werden nach oben diktiert
Booking.com mit Abstand am stärksten, HRS nimmt stetig ab
Booking.com viele neue Gäste , aber leider auch Stammgäste die das System nicht als solche erkannt!
Die Kommissionen, z.B. bei Booking.com sind wahnsinnig hoch. Wie die anderen Anbieter auch. Darum haben wir nur einen Vertrag mit Booking.com und nicht mehrere Anbieter.
Die Nachfrage nach OTA's steigt, wobei sie mehrheitlich quasi "Walk-Ins" ablösen würde.
Für kleinere und mittlere Betriebe zu hohe Kosten - wie früher mit den Kreditkarten. Die Kommissionen müssten dringend runter! Bei unseren hohen Kosten sind wir echt nicht mehr kompatibel mit dem Ausland!
Grosse Schwankungen je nach Saison. Winter mehr direkt, via Webseite sowie OTA's (letztere v.a. kurzfristig). Sommer mehr direkt, via Webseite, OTA und Event-Veranstalter. Sommer Volumen allerdings einiges kleiner als Winter.
Je suis très très content de booking.com - STC est complètement nul - L'Euro est un problème
Mit klarer Diskriminierung der Buchg von OTAs werden mehr Buchungen auf der eigenen Homepage generiert. Wir bieten ganz klar günstigere Preise und das Frühstück bieten wir kostenlos an.
Nous sommes trop petits et les réservations arrivent par téléphone ou mail après que le client ait visité le site internet. La plupart réservent sur recommandation. C'est du bouche-à-oreilles!
OTA wächst, Direkt wird weniger und weniger
Buchungen sehr kurzfristig
Wir konnten den Rückgang der Echtzeitbuchungen auf unserer Website stoppen. (Neu schlagen wir bei OTA's einen Teil der Kommission auf dem Preis, d.h. eigene Website ist im Vergleich günstiger!)

Focus on OTAs: Players and Costs

Relative market shares of top OTAs in selected European countries 2013

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	Austria	Belgium	Czech Republic	Denmark	Finland	Germany	Greece	Hungary	Italy	Norway	Spain	Switzerland	overall sample	Weighted European average
observations (n)	*49*	*56*	*55*	*50*	*42*	*1067*	*163*	*68*	*88*	*41*	*127*	*247*	*1736*	1736
Agoda	0.2	0.0	0.3	0.0	0.0	0.2	0.5	2.1	1.2	0.2	1.4	0.4	0.5	0.9
Booking.com	66.8	70.2	65.0	58.1	64.6	41.6	73.3	55.7	63.0	72.7	66.2	69.7	59.5	60.9
Priceline	**67.0**	**70.2**	**65.2**	**58.2**	**64.6**	**41.8**	**73.8**	**57.8**	**64.2**	**72.9**	**67.6**	**70.1**	**60.0**	**61.8**
HRS	7.9	3.6	8.6	4.7	1.9	31.1	0.5	6.1	3.7	2.3	2.0	6.7	11.9	8.9
Hotel.de	4.0	1.1	5.0	1.7	0.6	10.4	0.7	2.5	1.8	1.4	1.5	3.0	4.6	3.8
Tiscover	3.4	0.0	0.0	0.0	0.0	0.1	0.0	0.0	0.0	0.0	0.0	0.1	0.2	0.2
HRS (total)	**15.3**	**4.7**	**13.5**	**6.4**	**2.5**	**41.6**	**1.2**	**8.6**	**5.5**	**3.7**	**3.5**	**9.8**	**16.6**	**12.9**
Expedia	5.5	6.6	8.3	8.9	2.5	5.8	8.8	8.3	15.0	8.5	10.9	6.3	7.5	9.2
Venere	2.1	1.6	3.5	1.6	0.5	1.1	3.7	1.6	6.3	0.4	3.9	2.6	2.4	3.3
Hotels.com	0.3	0.6	1.5	9.1	2.2	1.0	2.8	1.1	1.8	5.7	1.1	1.0	1.8	1.6
Expedia (total)	**7.9**	**8.9**	**13.2**	**19.7**	**5.2**	**7.9**	**15.2**	**11.0**	**23.2**	**14.5**	**16.0**	**9.9**	**11.8**	**14.0**
Total of top 3	***90.2***	***83.7***	***91.9***	***84.2***	***72.3***	***91.4***	***90.2***	***77.3***	***92.8***	***91.1***	***87.1***	***89.8***	***88.3***	***88.8***

Schegg (2014): European Hotel Distribution Study: The Rise of Online Intermediaries. Special Focus Switzerland. Web: http://etourism-monitor.ch/node/129

Relative market shares of top OTAs in Switzerland: 2011-2014

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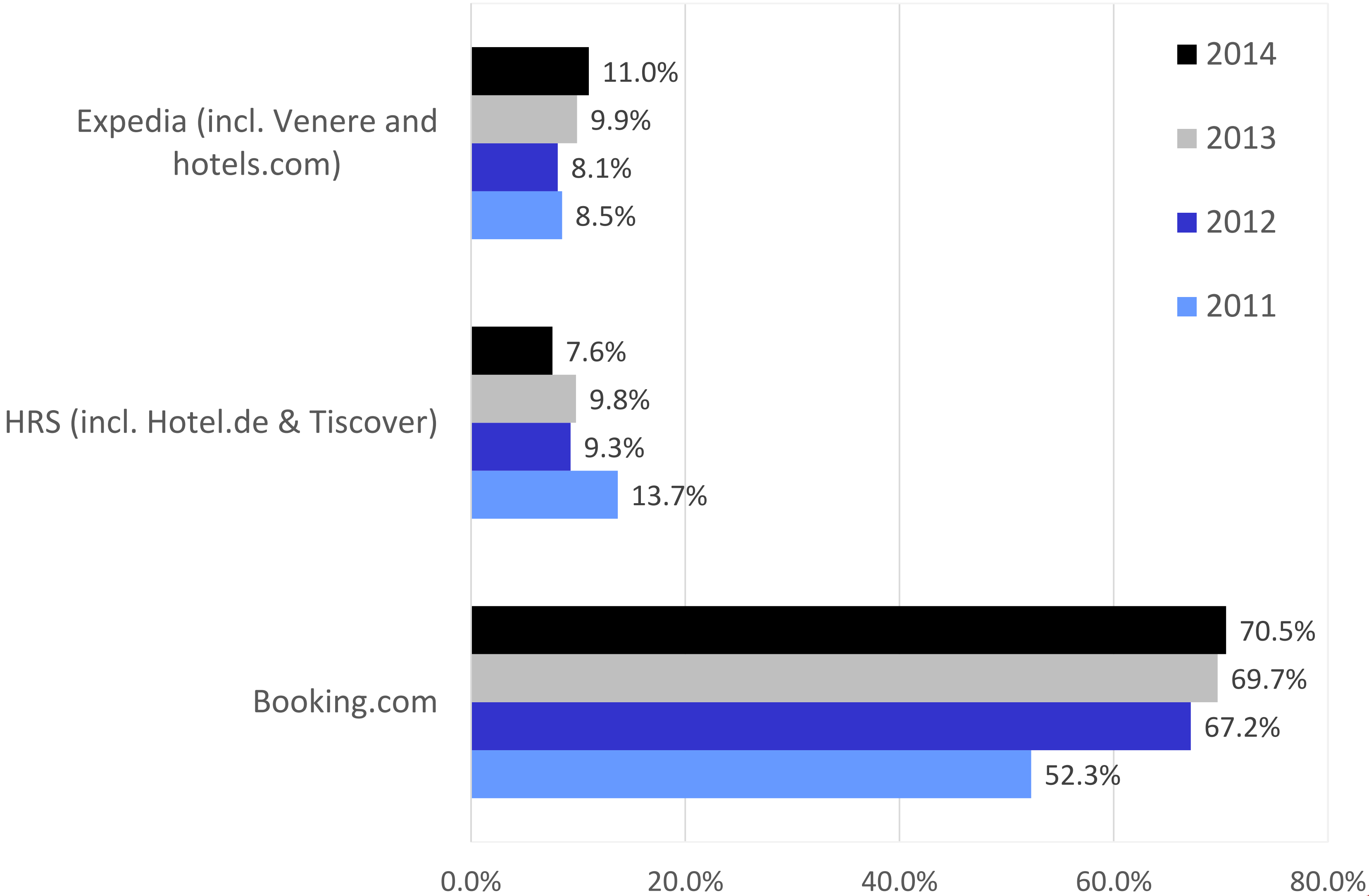
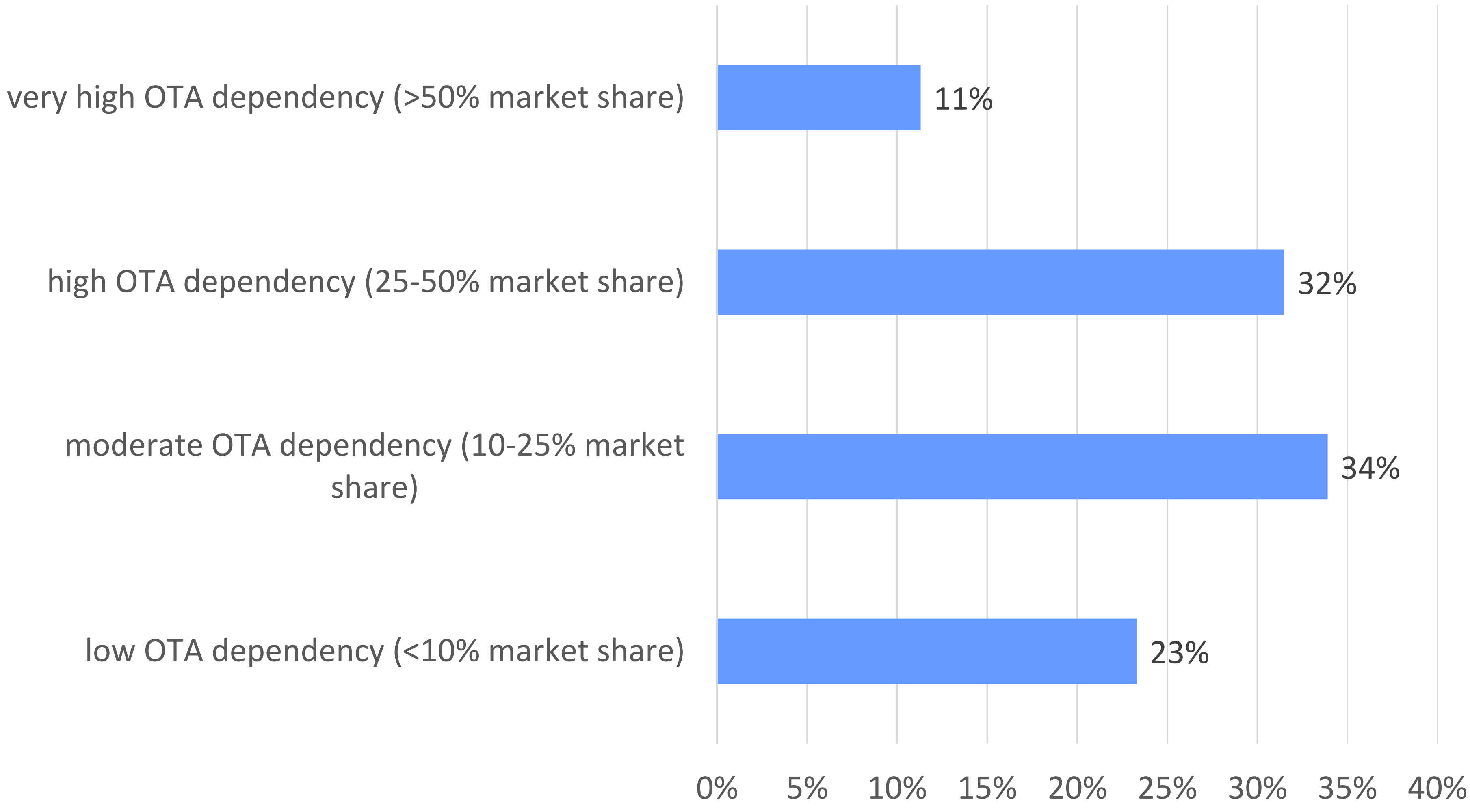


OTA dependency of Swiss hotels



- In 4 out of 10 hotels OTAs generate more than 25% of all bookings.

OTA dependency versus classification

	other	3*	4*	5*	Total
low OTA dependency (<10% market share)	24%	22%	22%	33%	23%
moderate OTA dependency (10-25% market share)	24%	27%	49%	60%	34%
high OTA dependency (25-50% market share)	26%	38%	26%	7%	32%
very high OTA dependency (>50% market share)	26%	12%	2%	0%	11%
Total	100%	100%	100%	100%	
p = <0,1 ; Khi2 = 31,0 ; ddl = 9 (TS)					

- The highest OTA dependency can be observed in hotel classified as 3* and lower.

OTAS: average annual commission payments per hotel and average commission rates

	booking.com			Expedia		HRS	
	annual commission payment (CHF)	annual commission payment per room (CHF)	average commission (%)	annual commission payment (CHF)	average commission (%)	annual commission payment (CHF)	average commission (%)
Average	38576	886	13.2	14176	16.4	5411	14.2
Maximum	445926	12500	25	214687	30	35000	20
Median	18750	500	12	5000	15	3100	15
n	148	145	192	77	100	75	102

- On average, a Swiss hotel spends annually at least 27'000 CHF on commission payments for the three major OTAs (30'000 overall).
- The average Swiss hotel pays 500 CHF on commission per room and per year to booking.com only and probably 700 CHF to OTAs overall.

Estimation of OTA Commission Payments of Swiss hotels

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- The estimations on the following slides are based on different hypotheses:
  - The calculations use the lodging revenues of the hospitality sector in Switzerland in 2014 (4,1 Billion CHF) as well as the hypothesis that booking turnover can be distributed proportionally to the market shares of the surveyed channels.
  - The transposition of the figures of the sample to the hospitality sector is only valid to a certain extent.
  - A full cost calculation should also take into consideration the fixed costs of particular channels (staff), in addition to clearing costs or the costs of the PMS interface.

➢ Therefore, the presented estimations only show an **order of magnitude**!

Estimations of OTA Commission Payments

- **Top-down approach**: Using an average commission of 13%, an OTA market share of 24.2% and lodging revenues of 4.1 Billion CHF, we can estimate an overall gross OTA turnover of **nearly 1 Billion CHF** and OTA commission payments of **130 Million CHF**.
- **Bottom-up approach**: Using the median value of the commission payment per room for booking.com (500 CHF) and the total hotel room supply in Switzerland (129'000 rooms), we can estimate the commission payments to booking.com to be 64.5 Million CHF. Taking the market share of 70.5% of booking.com, we can calculate the overall OTA commission payment to be **91 Million CHF**.

Mobile distribution and use of meta-search engines

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Source: http://virtuallydirect.wordpress.com/category/mobile-applications/

Use of meta-search engines

- One out of four hotels (27%) is using a direct interface with a meta-search engine.
- The proportion of hotels using this new channel is significantly higher in city hotels (35.1%), in business hotels (36%), in chain hotels (46.4%) and in 4* hotels (40%).

Use of Google Hotel Finder

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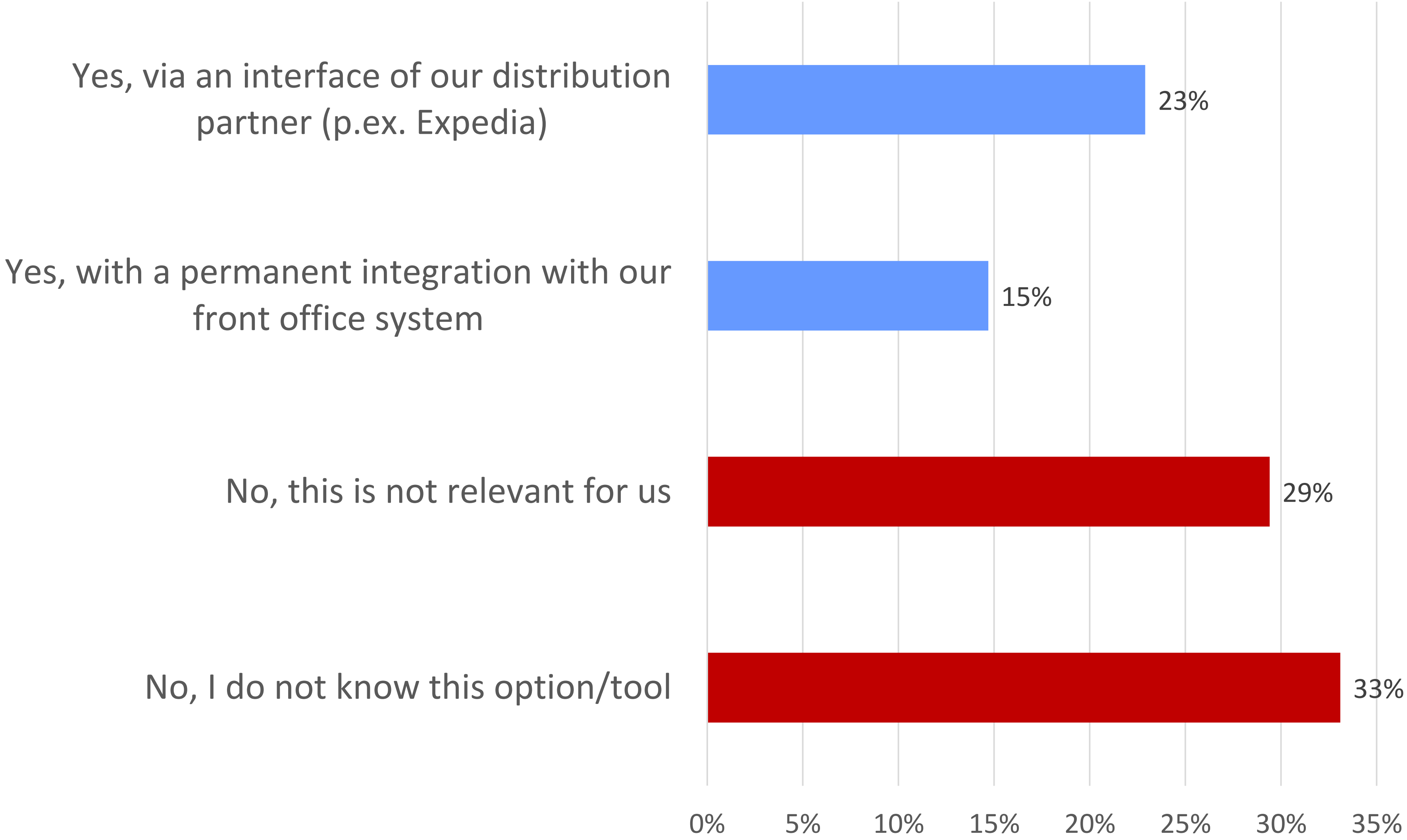

Use of Google Hotel Finder

- On average, 38% of hotels use the Google Hotel Finder actively.
- The proportion of hotels using this new channel is significantly higher in chain hotels (57%) and in 4* hotels (59%).

Mobile distribution channels

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- The proportion of hotels not using mobile distribution channels is slightly lower in 2014 (i.e. 41.4%) than it was in 2013 (i.e. 48%). Nevertheless, almost as few as one out of two Swiss hotel has no mobile distribution strategy.
- Most hotels (42%) have a mobile version of their website. One hotel out of ten has a mobile app (in most cases provided by a hotel cooperation or chain) whereas 4.4% of hotels use mobile distribution through a “same day booking app” from providers such as “Hotels Tonight”.

PMS / Front office systems used

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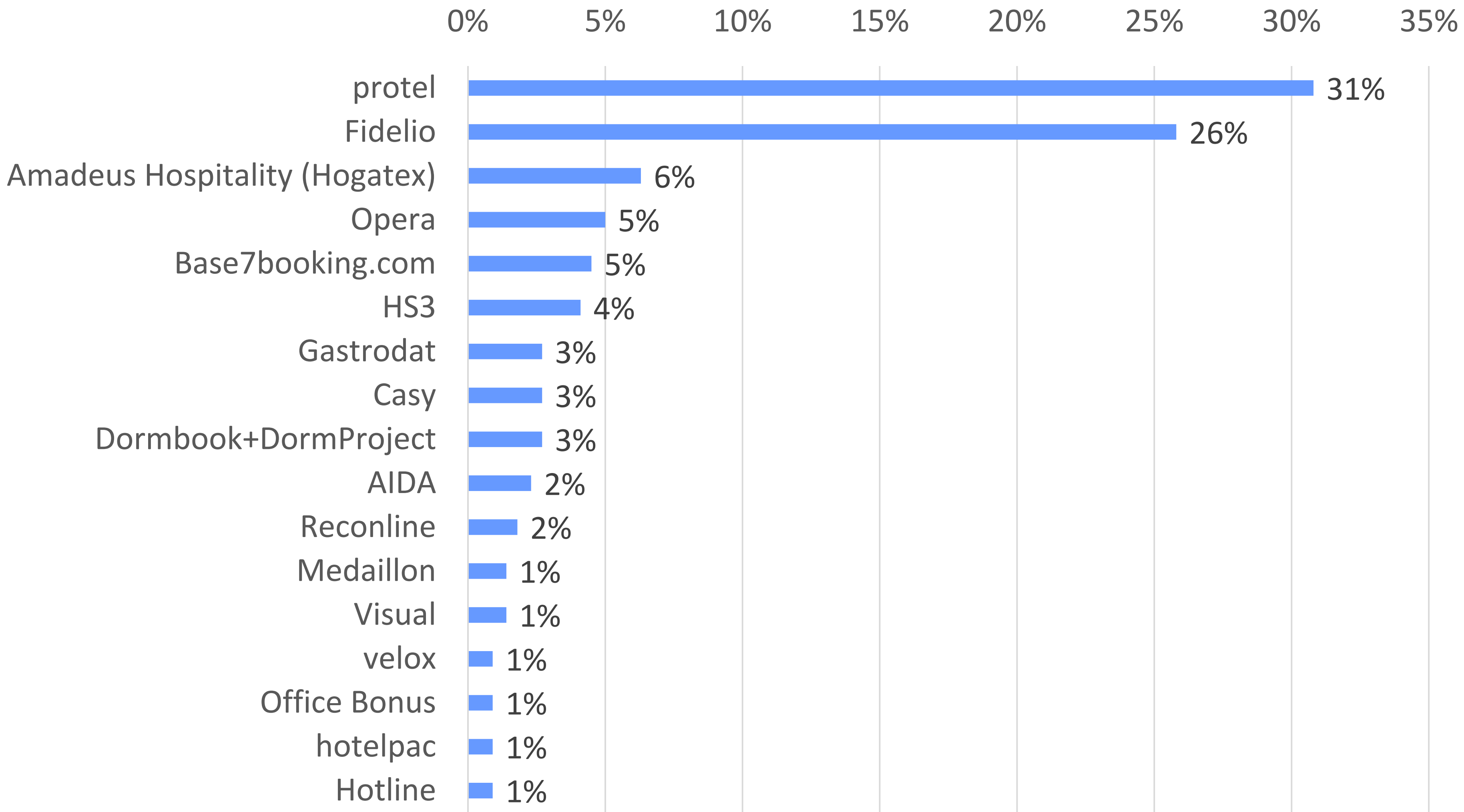

- Based on responses of 221 hotels (out of the 265 in the survey). The presented PMS systems in the graph total 95% of the market. In total 28 systems have been registered.

Contact

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Glossary of Used Terms and Abbrevations

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CRS	Central Reservation System
DMO	Destination Management Organisation
DMS	Destination Management System such as TOMAS or Deskline (Feratel)
GDS	Global Distribution System (e.g. Amadeus or Sabre)
hs	hotelleriesuisse (trade organisation of the Swiss hotel sector)
HRS	Hotel Reservation Service
LTO	Local Tourism Organisation
NTO	National Tourism Organisation
OTA	Online Travel Agency
PMS	Property Management System
RTO	Regional Tourism Organisation
SEM	Search Engine Marketing
SEO	Search Engine Optimisation
STC	Switzerland Travel Centre (national booking system in Switzerland)