
Continued Growth of Online Travel Agencies (OTA)

Results of an Online Survey on Hotel Distribution in Switzerland for 2012

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- **Background of the study**
- **Distribution channels**
- **OTAs (Online Travel Agency) in the Swiss hospitality sector**
- **Costs of distribution**
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- **New forms of distribution**
- **Recommendations**

Glossary of Used Terms and Abbreviations

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
IDS	Internet Distribution System
S	Supplier
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)

Direct distribution still important, but decreasing

- **Direct bookings** (telephone, fax, walk-ins, e-mail, Web form) without intermediaries are still the dominant channels in 2012 for hotels in Switzerland, even though their proportion has been steadily decreasing for a couple of years.
 - In 2012, 62% of the bookings in Switzerland were generated via direct sales channels, against 75% in previous years.
- **Traditional booking channels** such as telephone, letter or fax, as well as sales through **tourism partners** (travel agencies, tourism boards) have been declining for 10 years, although the process is progressing slowly.
 - Market share of tourism organisations has continually decreased and oscillates at around 4.9% of the bookings in Switzerland, whereas in 2006, 6.5% of sales were made through tourism organisations.

Growing Shares of Online Distribution Channels

- Overall, **30% of bookings** are generated **real-time** through **online channels**. **OTAs** are clearly dominant (20.9%). They have multiplied their market shares in the last few years and seem to grow continuously.
- Three out of ten hotels generate more than 30% of bookings via OTA and every eighth hotel has OTA sales of more than 40% underlining the strong dependency of many operators in Switzerland on these intermediaries.
- The share of **real time bookings** on hotels' own websites has reached 5.6%. Compared to 2011, this represents a decrease of 0.7%.

The Power of OTAs

- Online booking channels (GDS, IDS/OTA, real-time booking on hotel websites, CRSs) generated an estimated turnover of over one billion francs (1,152 million) in 2012 in the Swiss hotel industry.
- The total amount of commissions paid to intermediaries by hotels totals 194 million francs whereof 124 million francs were spent for commission payments to online channels.
 - OTAs represent the largest part with estimated 104 million francs.

- **Booking.com** is the most frequently used OTA in Switzerland. According to our data, its market share among OTAs increased from 53% to 67%.
- Hotel Reservation System HRS (6.5%), GHIX (4.0%) and Expedia (3.6%) are other major online distribution players in the Swiss hotel industry, in particular for specific types of hotels.
 - Booking.com has higher market shares in leisure than business hotels, whereas the situation is the opposite for HRS.
 - Booking.com is strong in independent hotels or those with 3 stars and less.
 - HRS and Expedia are popular with chain hotels and in large hotels and urban hotels, which are particularly active in tourism business.

Distribution Trends

- Less than 15% of hotels use new forms of distribution such as **deal offers** from OTAs. The trend seems, in comparison with 2011, to be decreasing.
- **Mobile Internet:** Approximately 40% of the questioned hoteliers use mobile sales channels compared to about one-third in 2011. Enterprises that are active in mobile forms of distribution more often use websites adapted to mobile internet, rather than specific apps.
 - Hotels that have invested in these new distribution opportunities are characterized as follows: 4-5 star hotels, big hotels and branded hotels.

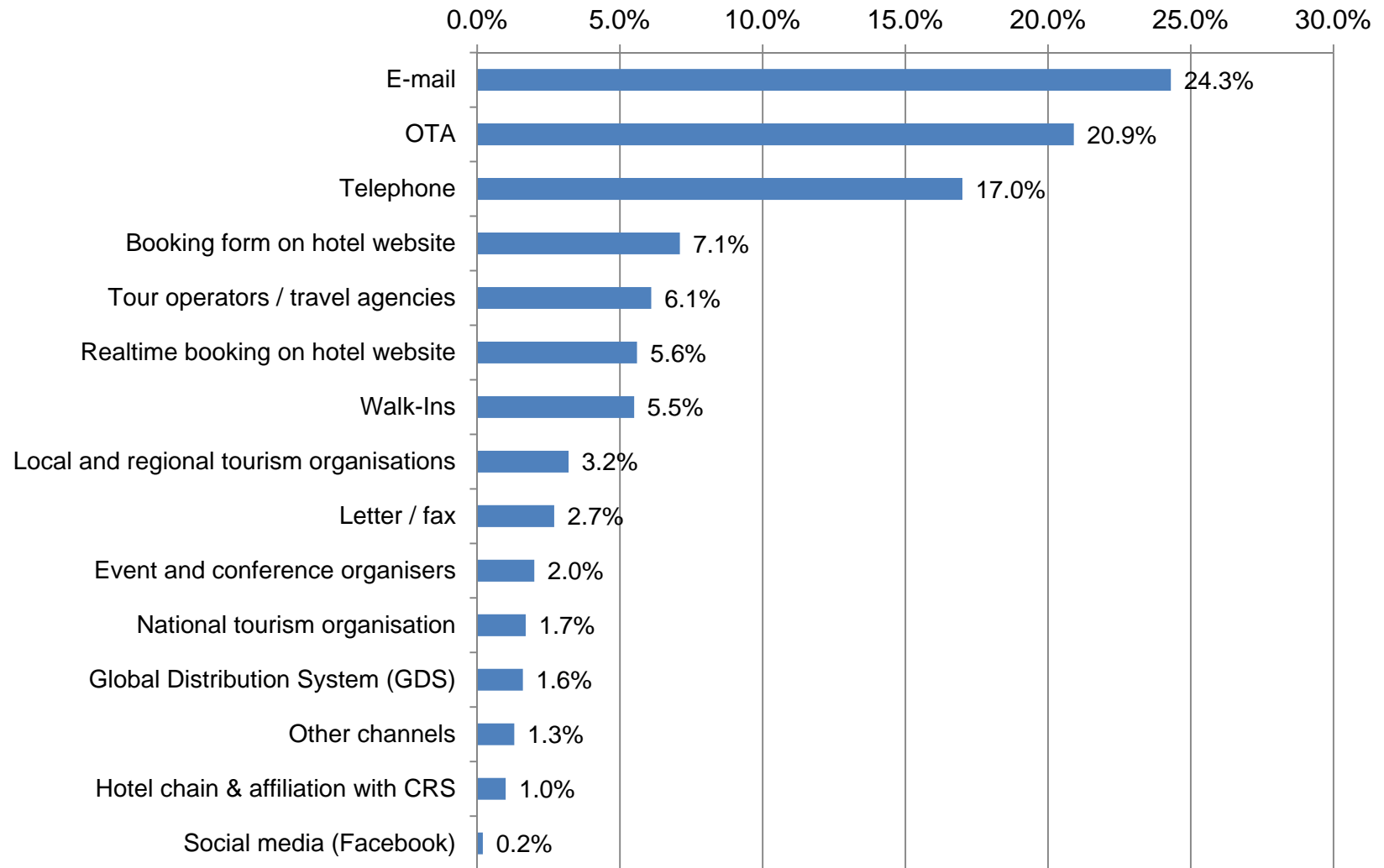
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Background of the Study

- The **Institute of Tourism** of the University of Applied Sciences Western Switzerland Valais (HES-SO Valais) in Sierre conducted an online survey with the support of the Swiss hotel association (**hotelleriesuisse**) in order get insight into distribution trends in the hospitality sector.
- The online survey for the reference year 2012 was conducted between mid-December 2012 and January 2013.
- The results presented here are based on responses from 205 hotels all over Switzerland. This corresponds to a response rate of 10.2%.
- The sample reflects the structure of members of hotelleriesuisse regarding the classification of hotels.

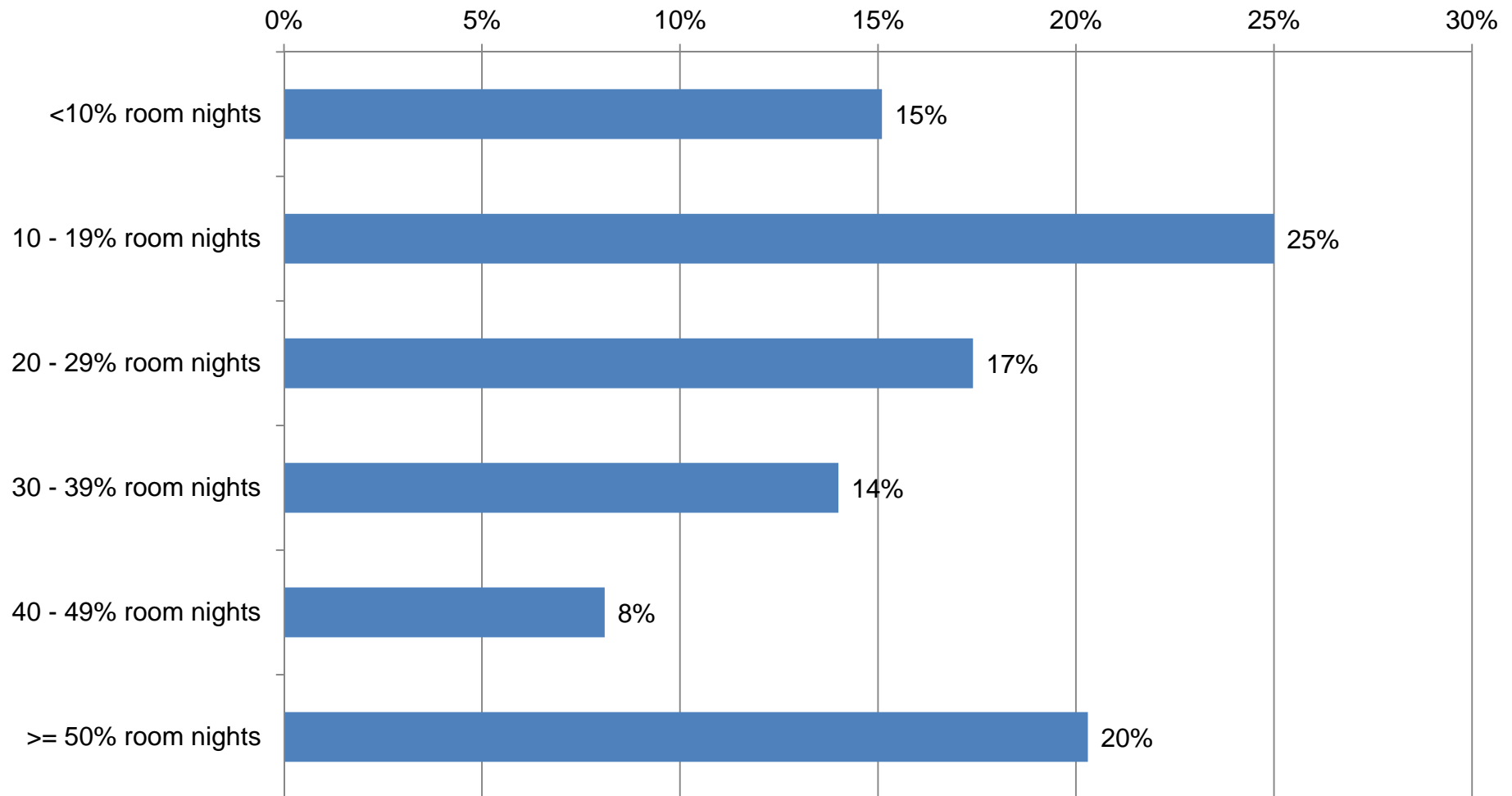
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Booking channels in Swiss hotels 2012



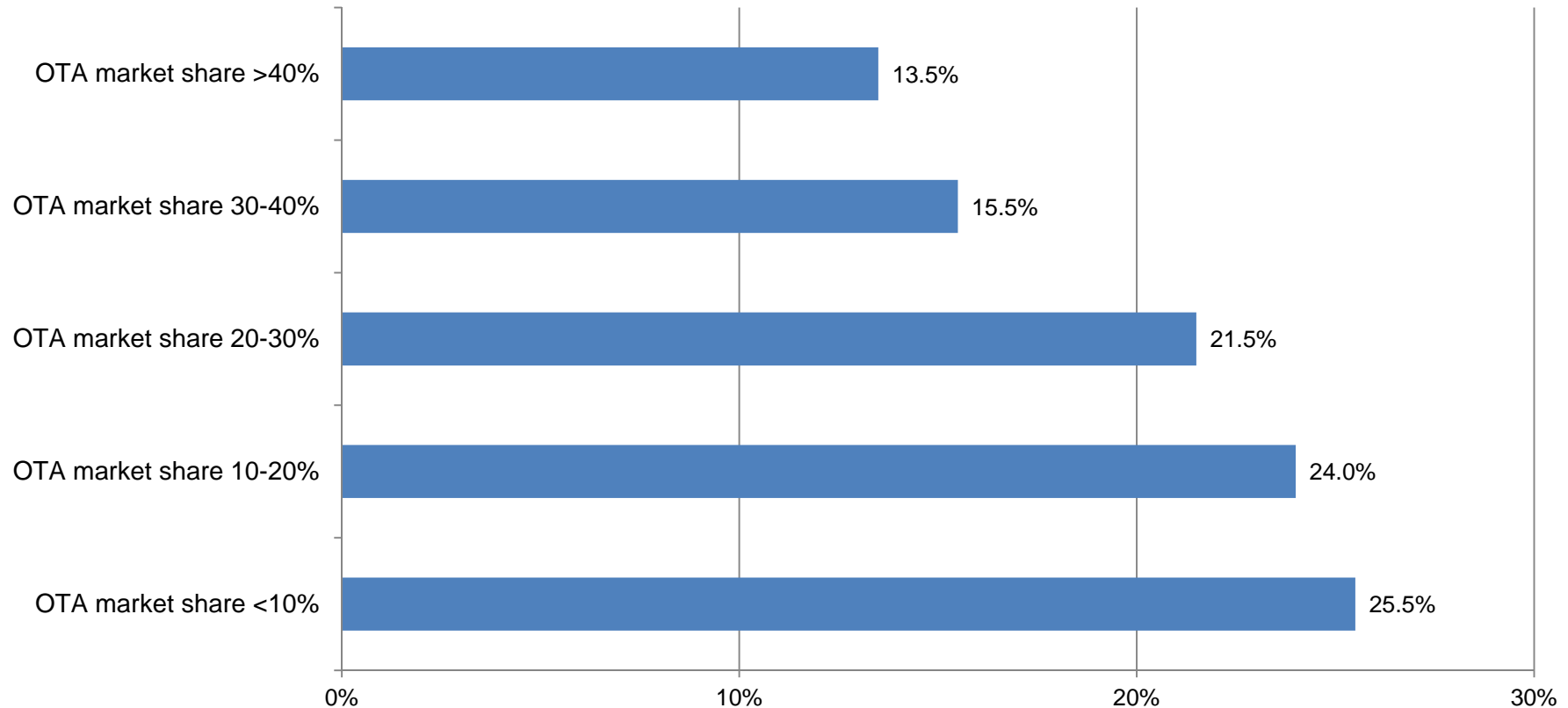
What is the share of OTAs with regard to overnights in 2012?

- Mean 28.4% et median 25% (n=172)



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Distribution of OTA market shares in Swiss hotels



- In more than 30% of Swiss hotels, OTA generate over 30% of bookings and in one out of eight hotel this proportion exceeds 40%.

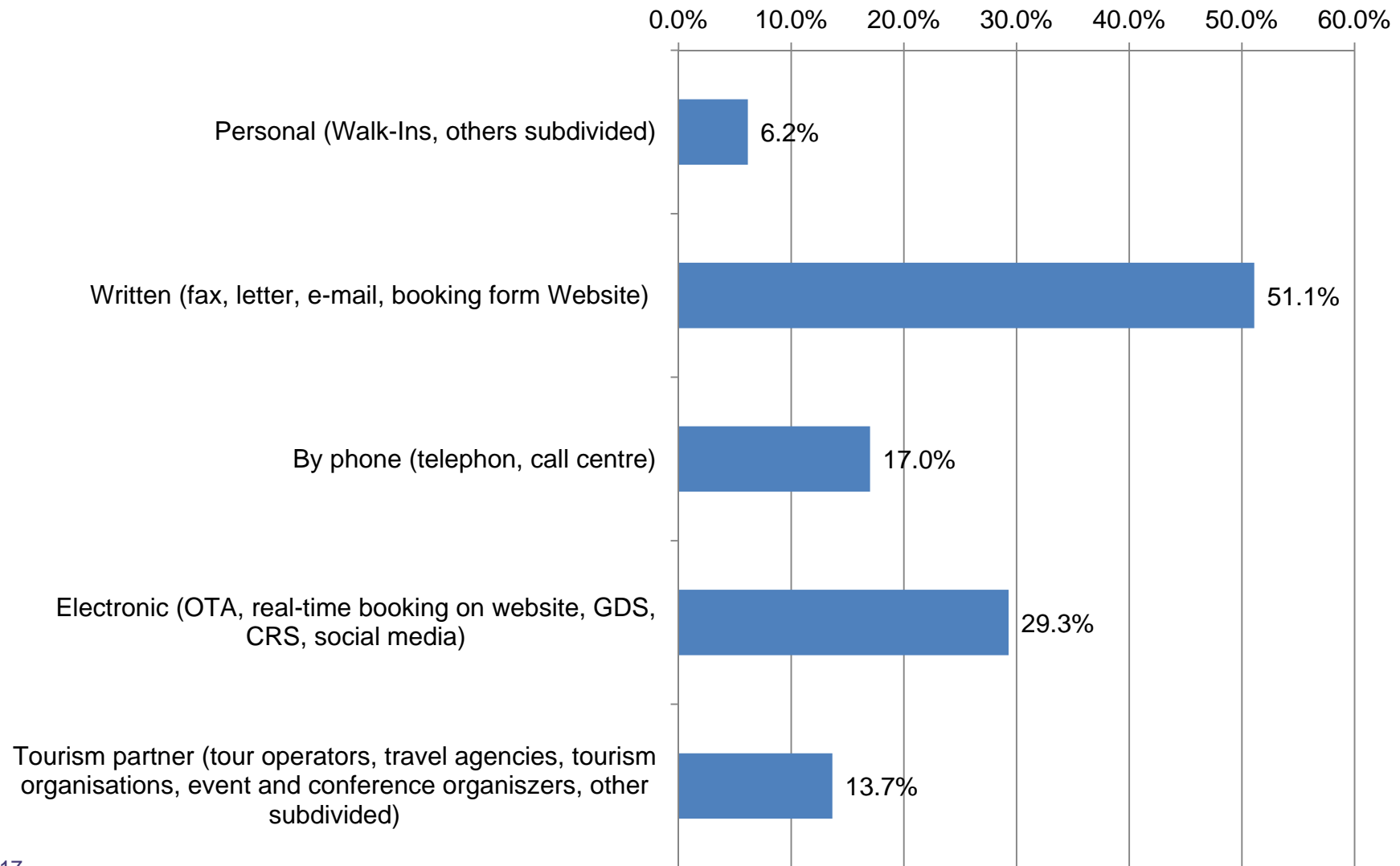
Profiling of Booking Channels by Enterprise Characteristics (1)

- **Traditional channels of direct distribution** (telephone, email, etc.) are of similar importance for all types of hotels.
- **Real-time bookings on hotel websites** are above-average in 4-5 star hotels and in branded hotels.
- **OTA bookings:** It is interesting to see that for the big 4-5 stars hotels the OTA market share is relatively low while at the same time bookings generated through GDSs are above-average. The highest proportion of bookings through OTAs can be observed in the non-classified to 2* hotels and in small (less than 50 rooms) hotels.

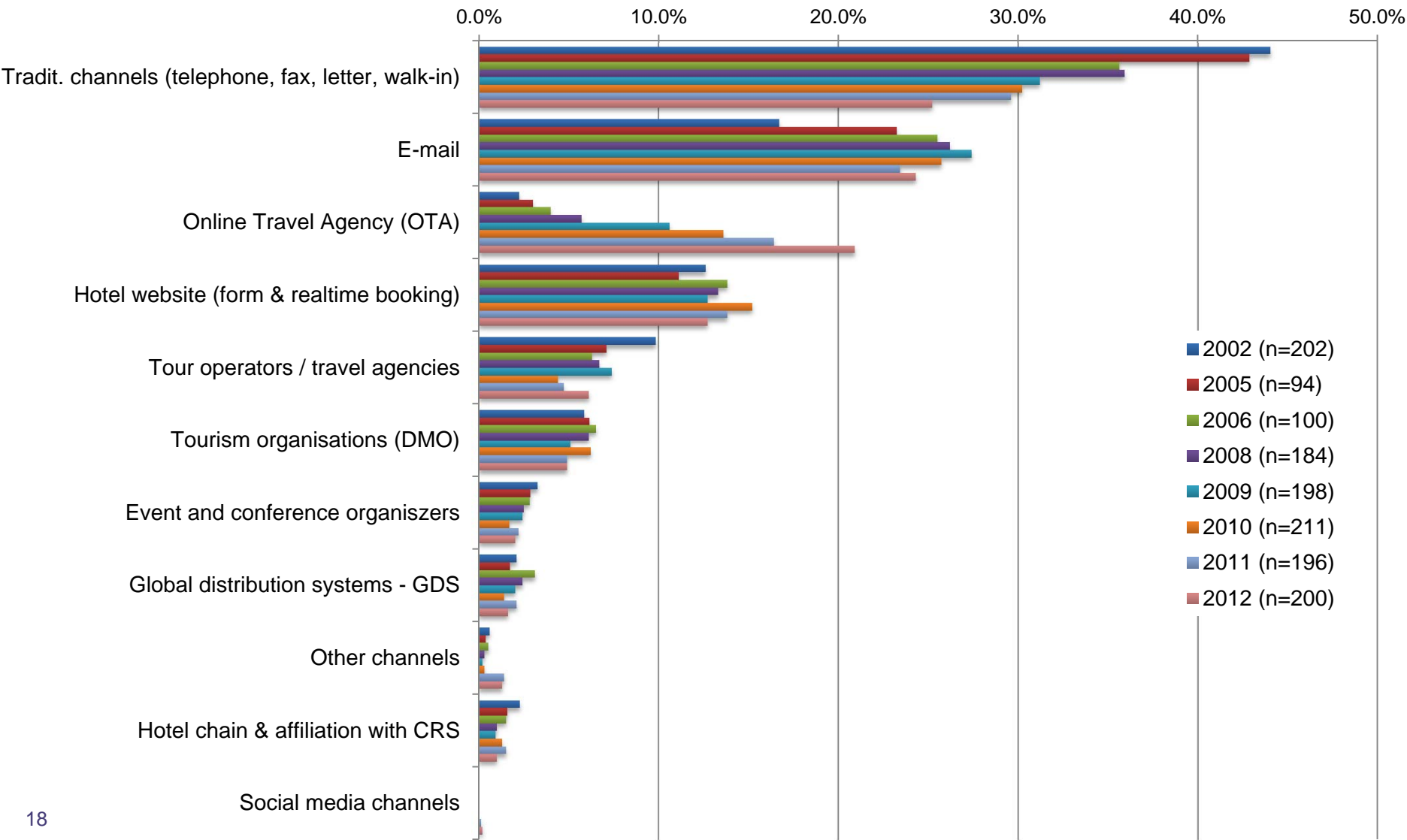
Profiling of Booking Channels by Enterprise Characteristics (2)

- Above average sales through **travel agencies and tour operators** are realized by big 4-5 star hotels.
- **Local and regional tourism organizations** are clearly more important for hotels positioned in the leisure segment and small hotels than for other types of properties such as big 4-5 star hotels or chain hotels.

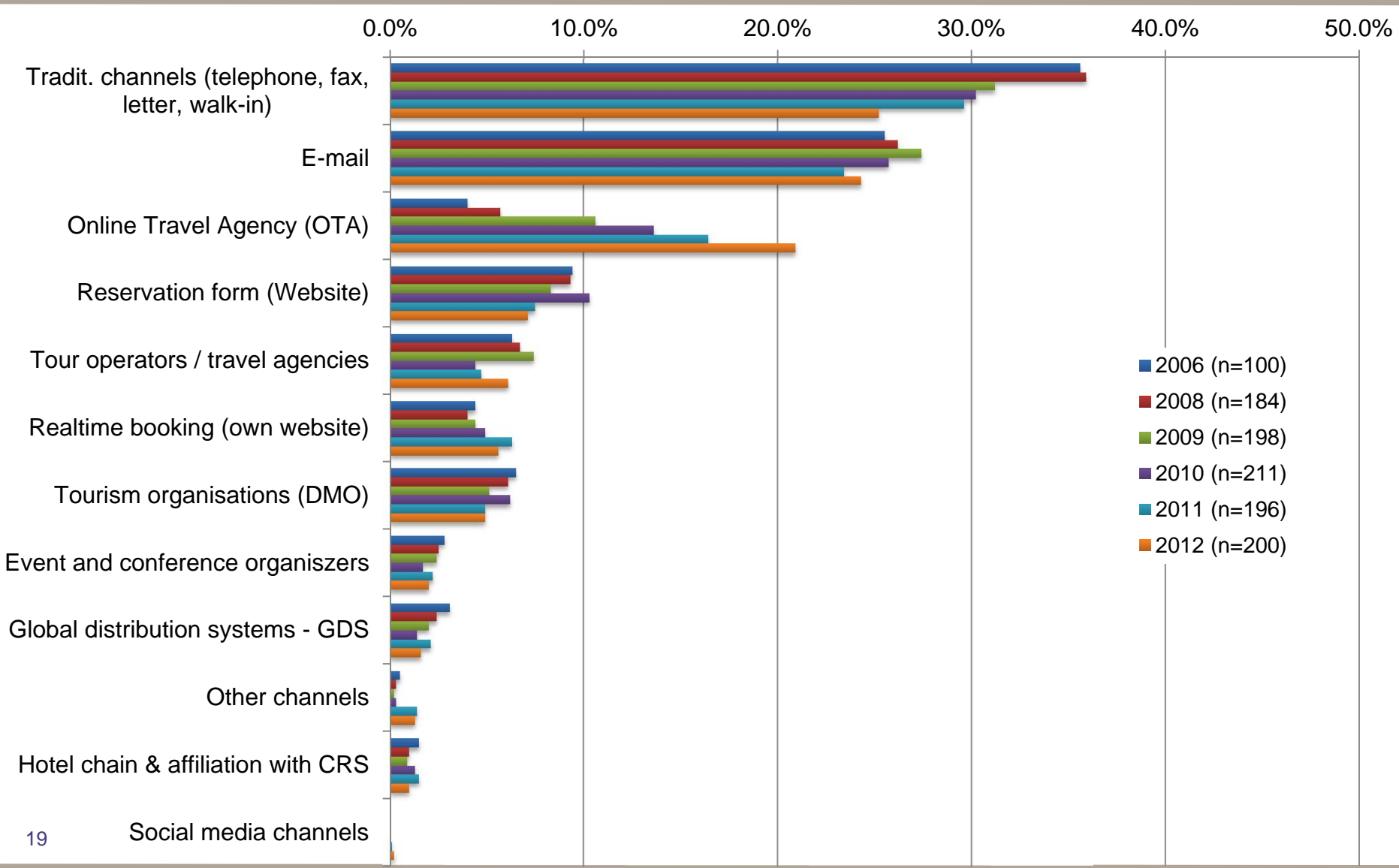
Booking Paths for Hotels in Switzerland 2012



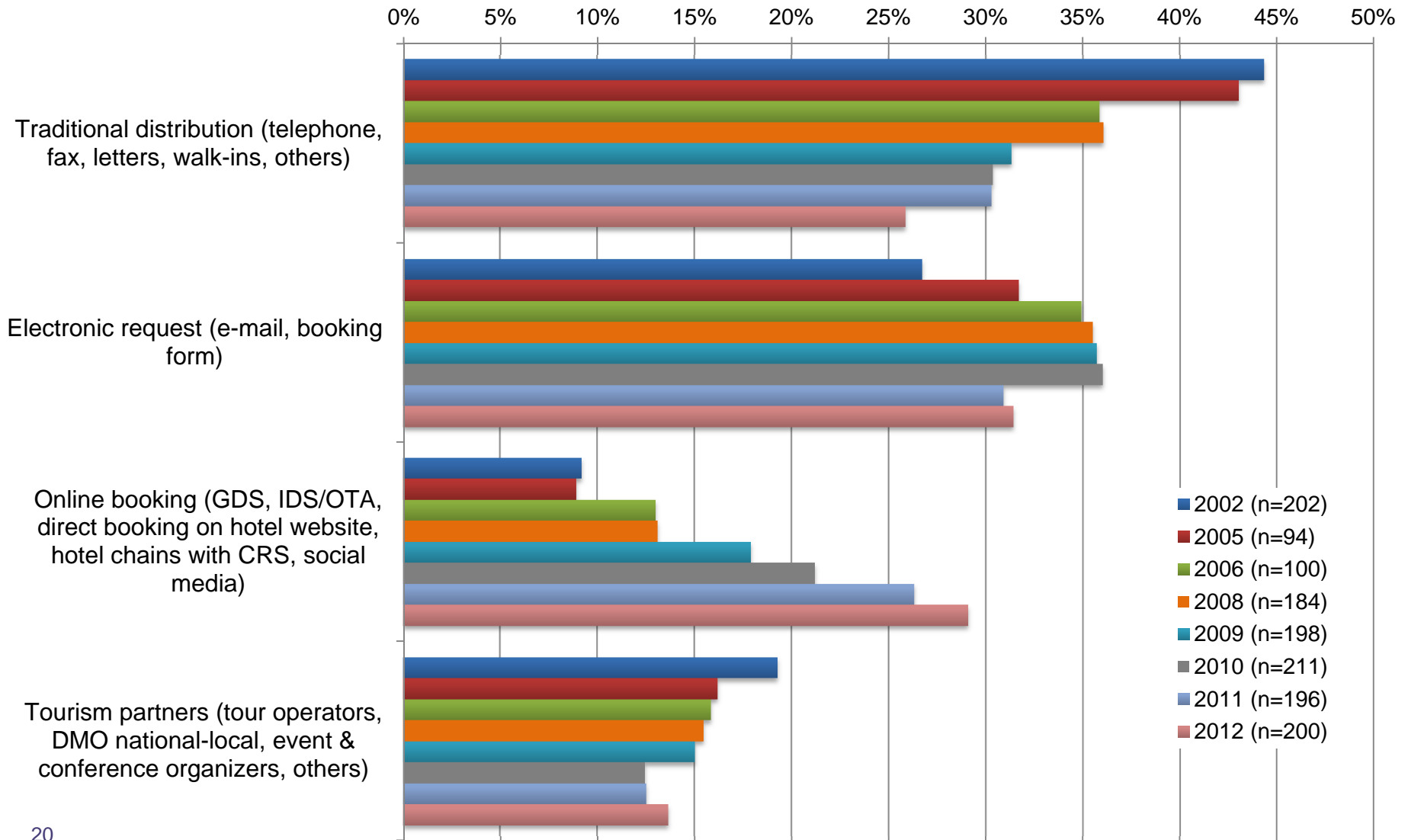
Trends in Booking Channels in Swiss Hotels 2002-2012



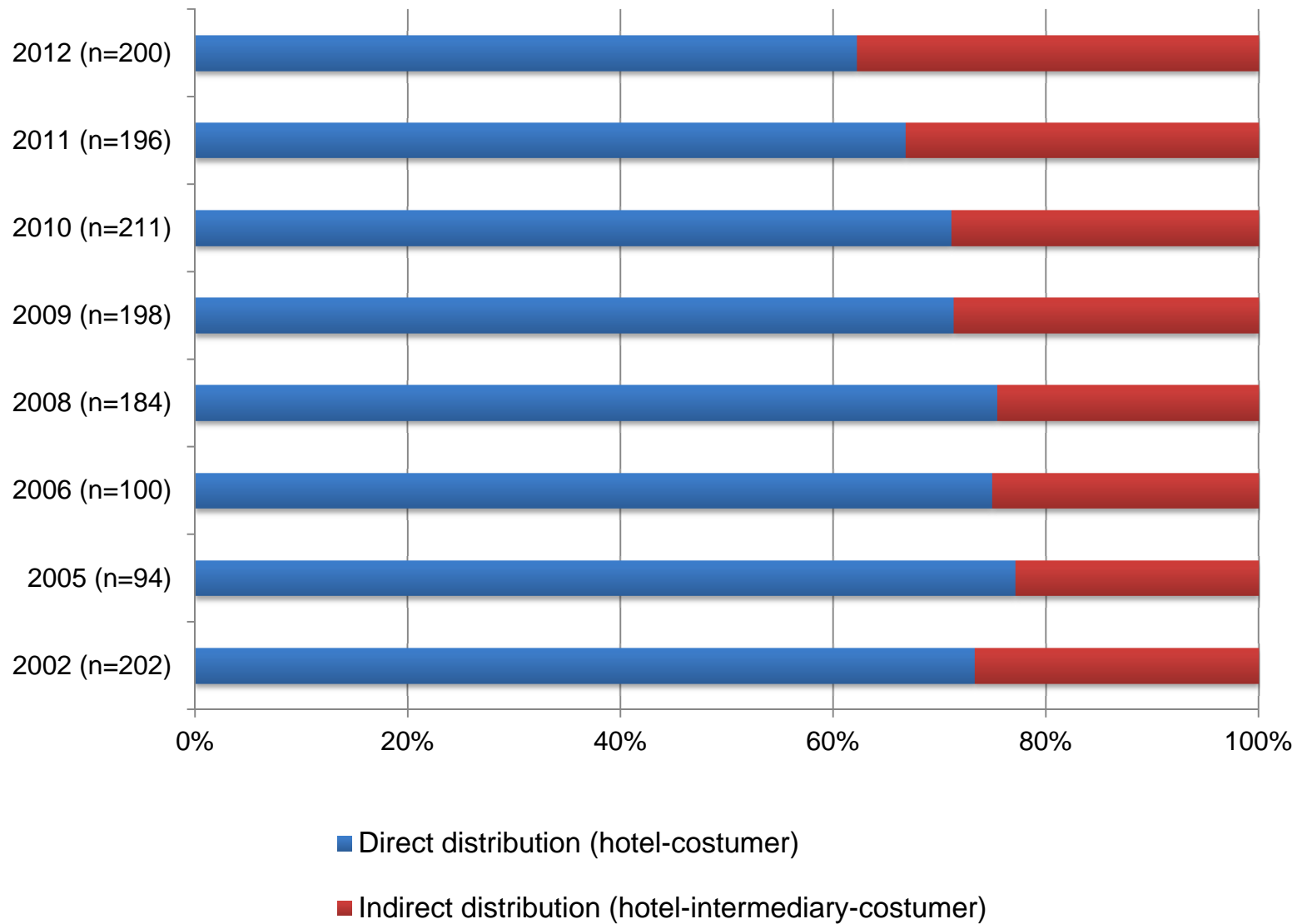
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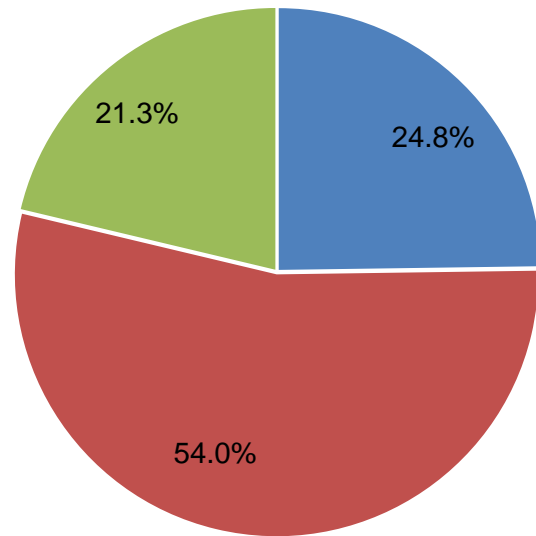
Distribution Trends in the Swiss Hotel Sector 2002-2012



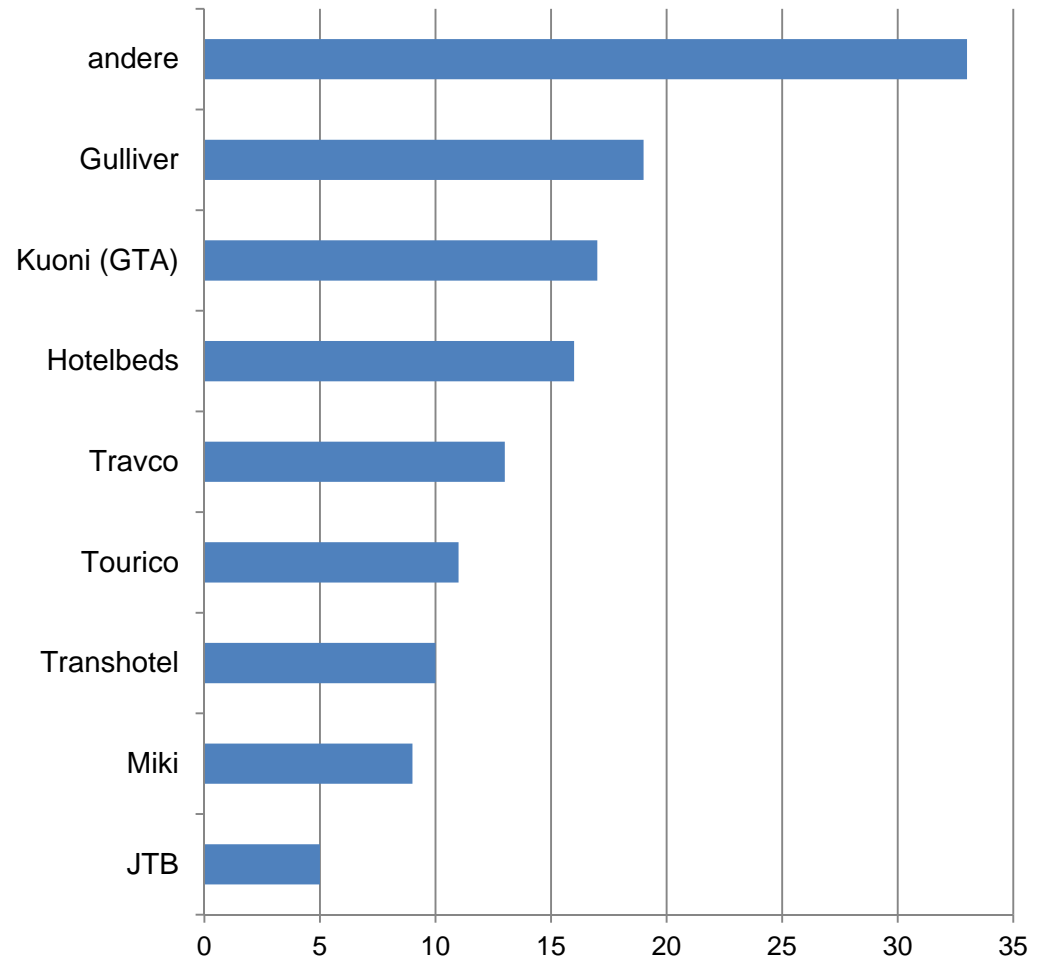
Distribution Trends in the Swiss Hotel Sector 2002-2012



Do you work with Wholesalers such as Hotelbeds, Tourico, Gulliver, Transhotel, etc.?



■ I don't know ■ No ■ Yes

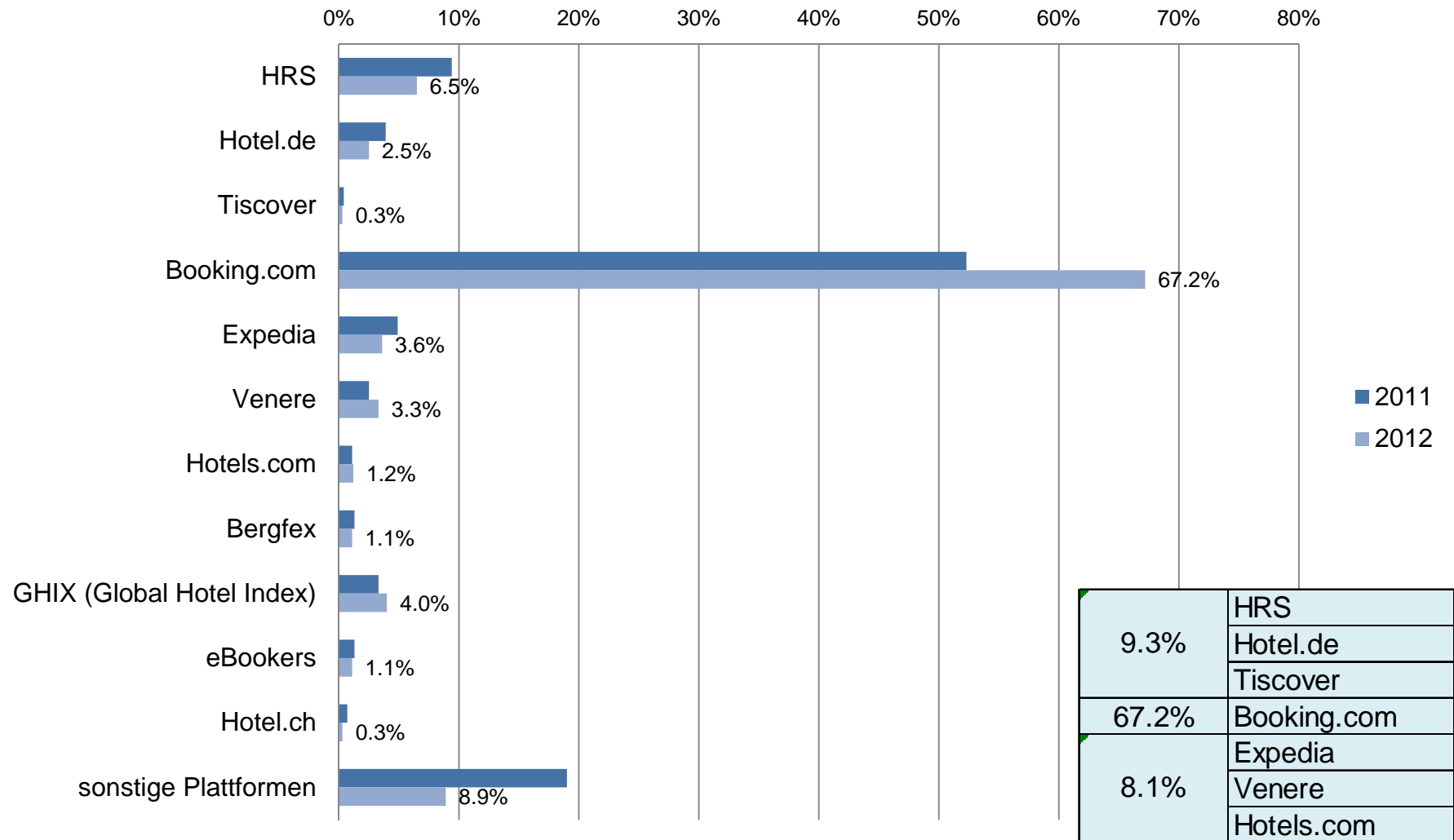


Comments of hoteliers on distribution channels: a short synthesis

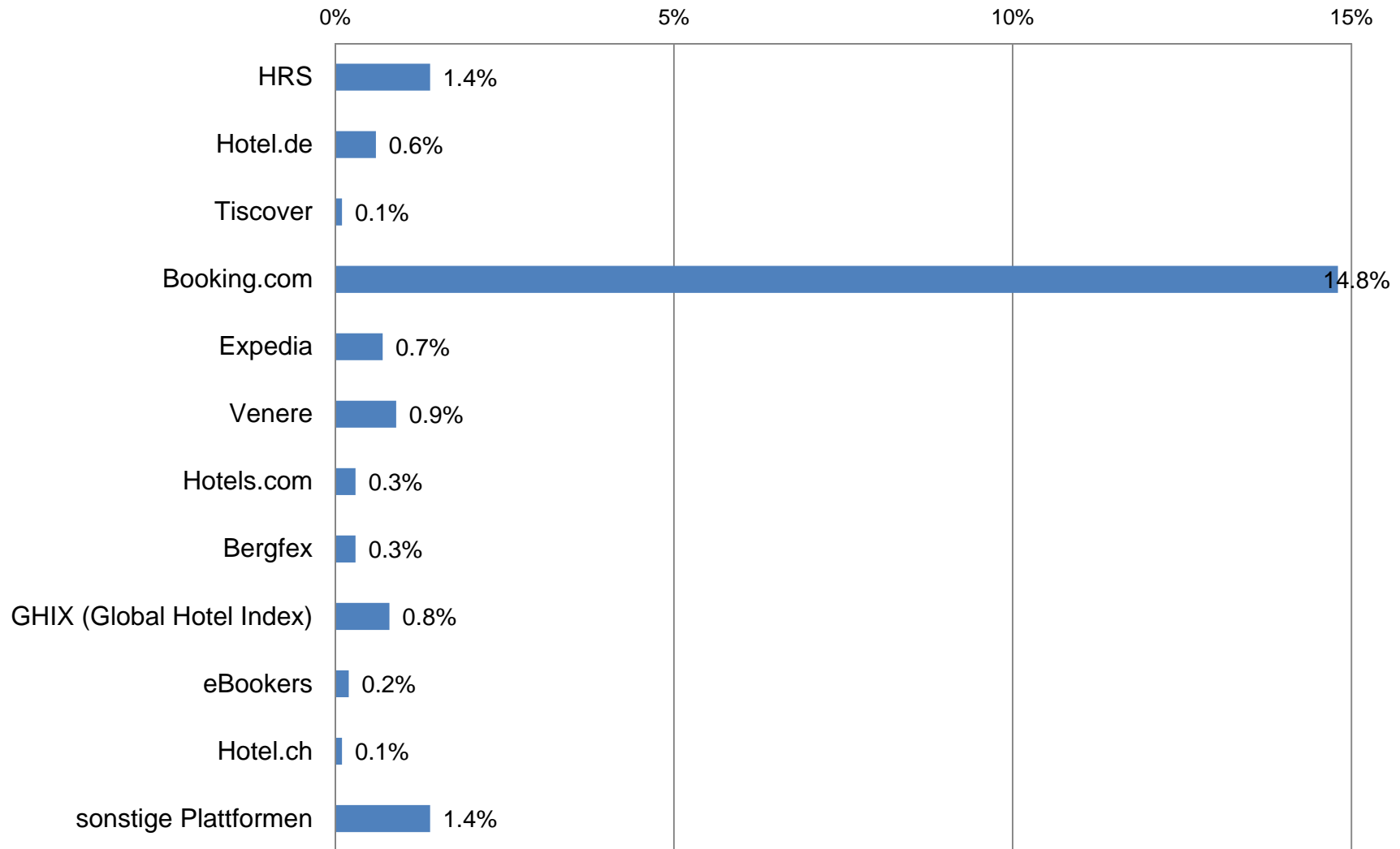
- OTAs (especially booking.com) have clearly gained market shares and are very dynamic. They also offset some losses from the Euro zone.
 - Many hoteliers complain about high commission rates (12-15% are barely bearable) of OTAs. On the other hand, for some hotels the marketing expenses and administrative costs have decreased.
 - Other hotels complain about additional charges associated with OTA bookings (management of customer requests and questions) and loss of control on customer data.
- It's important to provide an easy and economically interesting booking option on company website (real-time booking) and reward clients who book directly -> improve management of customer relations.
- Distribution trends
 - Internet channels and mobile applications (last-minute): growth
 - Travel agencies and tourist offices: down

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Comparison of Relative Market Shares of OTAs in Switzerland 2011/2012



Absolute Market Shares (with respect to all distribution channels) of OTAs in Swiss hospitality sector 2012



Observations on OTAs

- **Booking.com** is the most frequently used OTA in Switzerland (relative market share 67% and absolute market share 14.8%)
- **Hotel Reservation System HRS** (6.5%), **GHIX** (4.0%) et **Expedia** (3.6%) have a relatively important role for all types of hotels in Switzerland.
- The market share of **booking.com** is above average in leisure hotels compared to business hotels, while market shares of HRS show an inverse trend.
- Generally, booking.com is especially strong in small and independent hotels with 3 stars or less.
- **HRS and Expedia** play an important role in chain hotels and branded hotels as well as in big hotels and city hotels which focus on business tourists.

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Estimations of Revenues and Commission Costs

- The estimations on the following slides are based on different hypotheses:
 - The calculations use the lodging revenues of the hospitality sector in Switzerland in 2012 (4,122 Billion CHF) as well as the hypothesis that booking turnover can be distributed proportionally to the market shares of the survey 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.

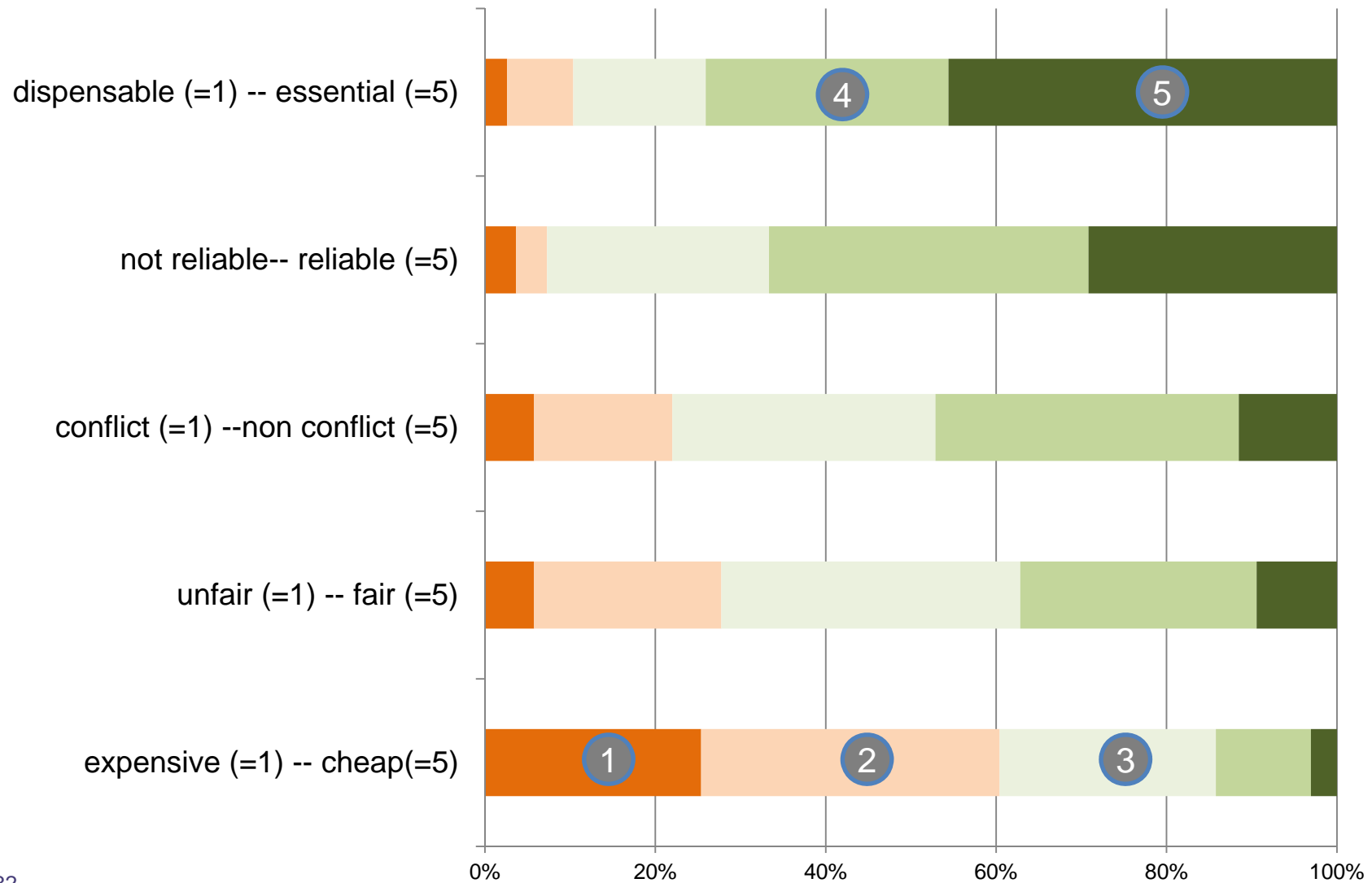
- The presented data/estimations show therefore only an **order of magnitude!**

Estimation of Revenues and Commission Costs by Distribution Channel

- **Online booking channels** (GDS, IDS/OTA, real-time booking on hotel website, CRS) generated an estimated **turnover of over one billion francs** (1,152 Million) in 2012 in the Swiss hotel industry.
- The total amount of **commissions** paid to intermediaries by the hotels totals 194 million francs whereof 124 million francs were spent for commission payments to the online channels.
 - OTAs represent the largest segment with estimated 104 million francs.

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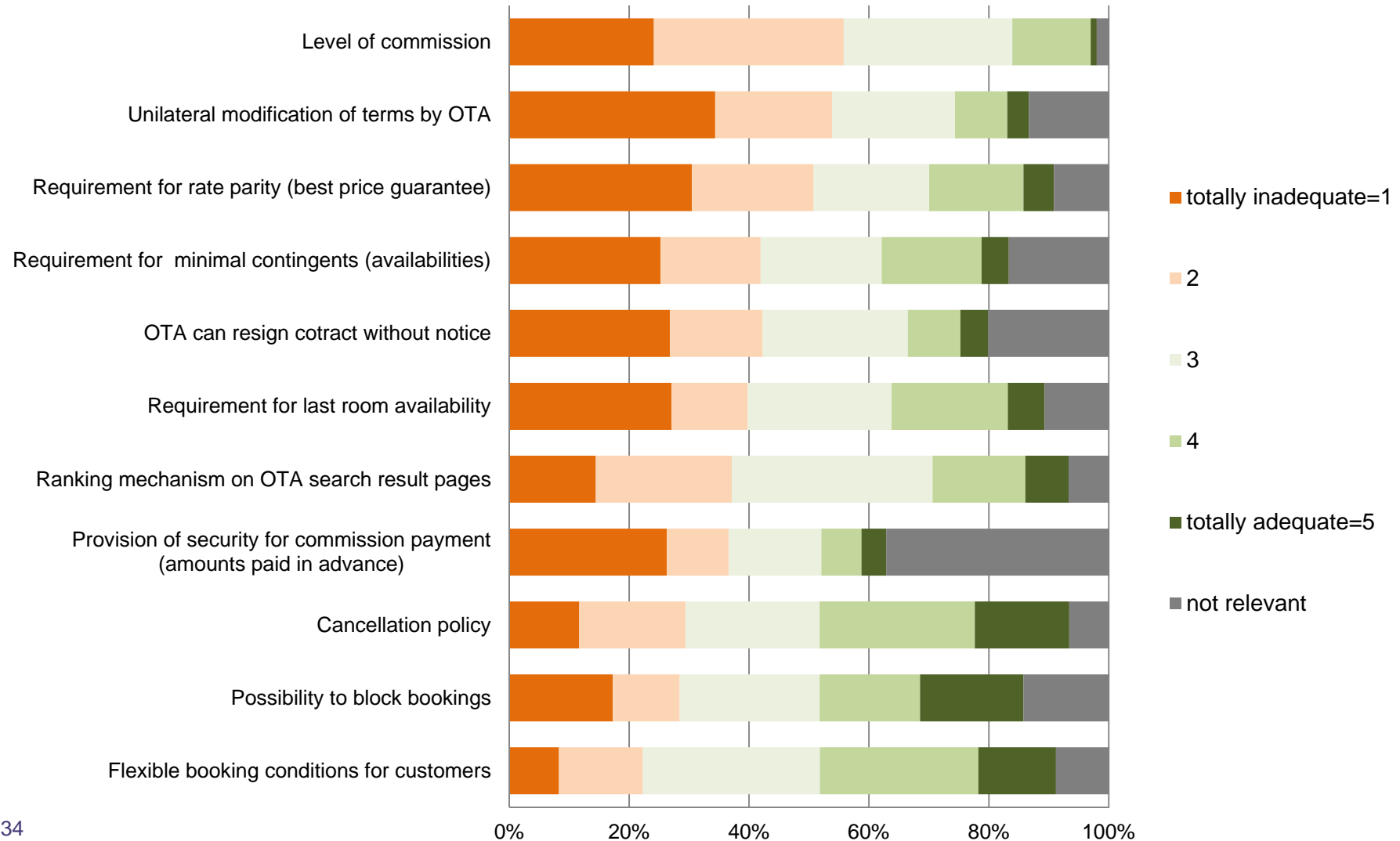
Evaluation of OTAs as distribution partners according to different characteristics (scale 1-5)



Perception of OTAs as Distribution Partners

- For three out of four hotels, OTA are **indispensable** partners, but perceived as **too expensive** by 60% of hoteliers.
- While two-thirds of hotels consider OTA as trusted partners, more than 20% of hotel owners define this partnership as unfair and antagonistic.
- This suggests that there is potential for frustration within the sector.

How do you judge the terms and conditions of OTA contracts on the following points?



How do you judge the terms and conditions of OTA contracts on the following points?

- The terms and conditions of contracts with OTAs have been criticized by a majority of hotels; especially the level of commission, the right to unilaterally change the terms of the contract and the rate parity requirement.
- Many other aspects such as last room availability have been criticized by 40% of hotels, while only 20% believe that these conditions are appropriate.
- Hotelier's perception is generally better on only three issues: flexible reservation for customers, possibility of OTAs to block bookings and cancellation policy.
- There are few significant differences in perception of the contractual conditions by the different hotel segments (category, location, etc.). The critical point of view is generally shared.

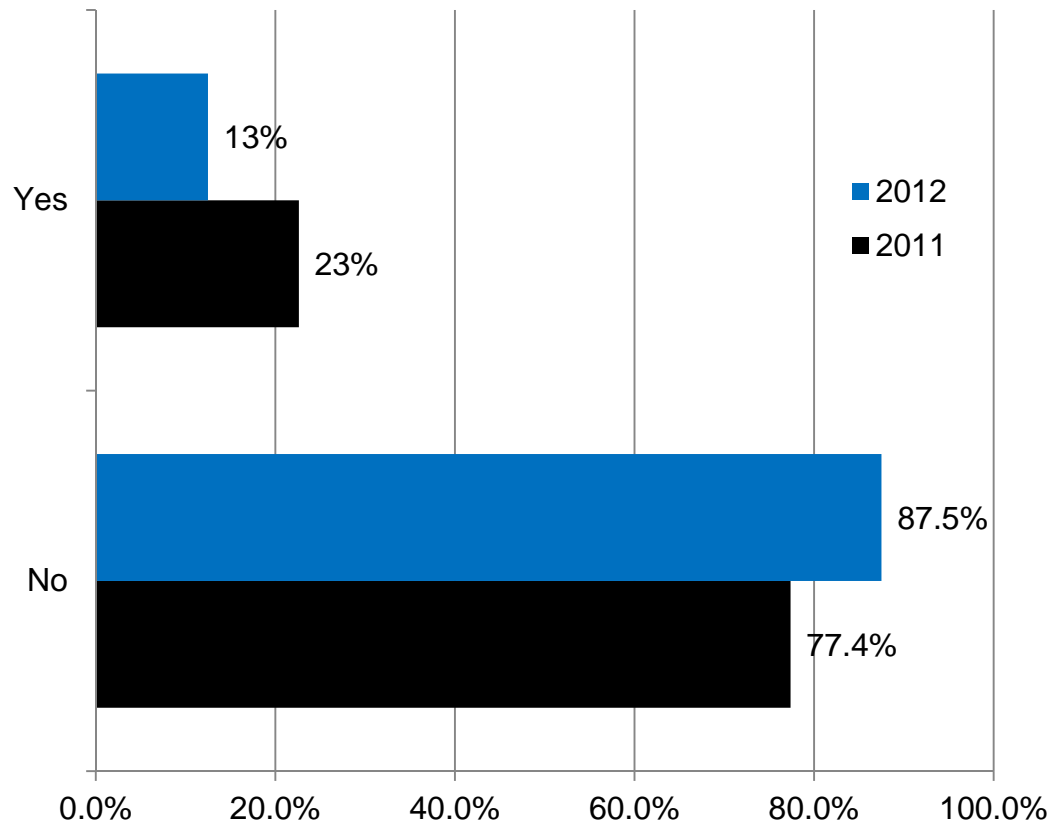
Which OTA commission model do you generally use?

	Number	%
Always standard commission / basic provision	136	68.3%
Always standard commission / basic provision, but sometimes with «Preferred Partner» model	55	27.6%
Generally with «Preferred Partner» model, but sometimes standard commission / basic provision	6	3.0%
Always with «Preferred Partner» model	2	1.0%
Total	199	100.0%

- Only a very small minority (4%) of hotels primarily work with «preferred partner» model, while two thirds of hotels use only the standard commission model.
- 4-5 star, chain hotels, urban and big hotels most often use «preferred partner» model compared to other types of hotels.

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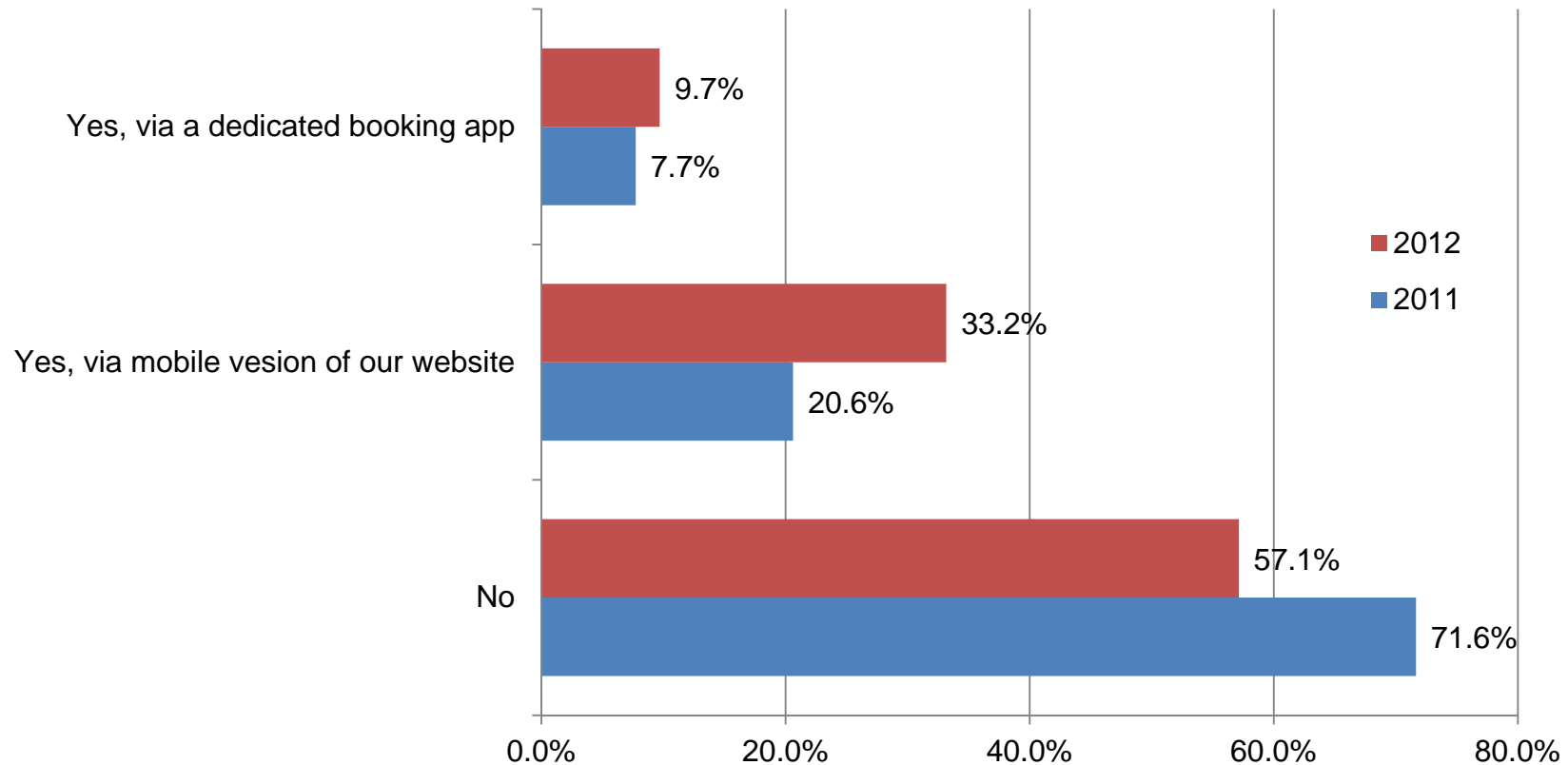
Need for New Forms of Distribution: Use of Deal Sites or Flash sales Sites



- The use of flash sales seems to have decreased in 2012. From comments of hoteliers („blood-letting“), the high costs of this channel are the main reason for this trend.
- Flash sales are principally used by 4-5 star establishments (23.5%) and hotel chains (26.3%).

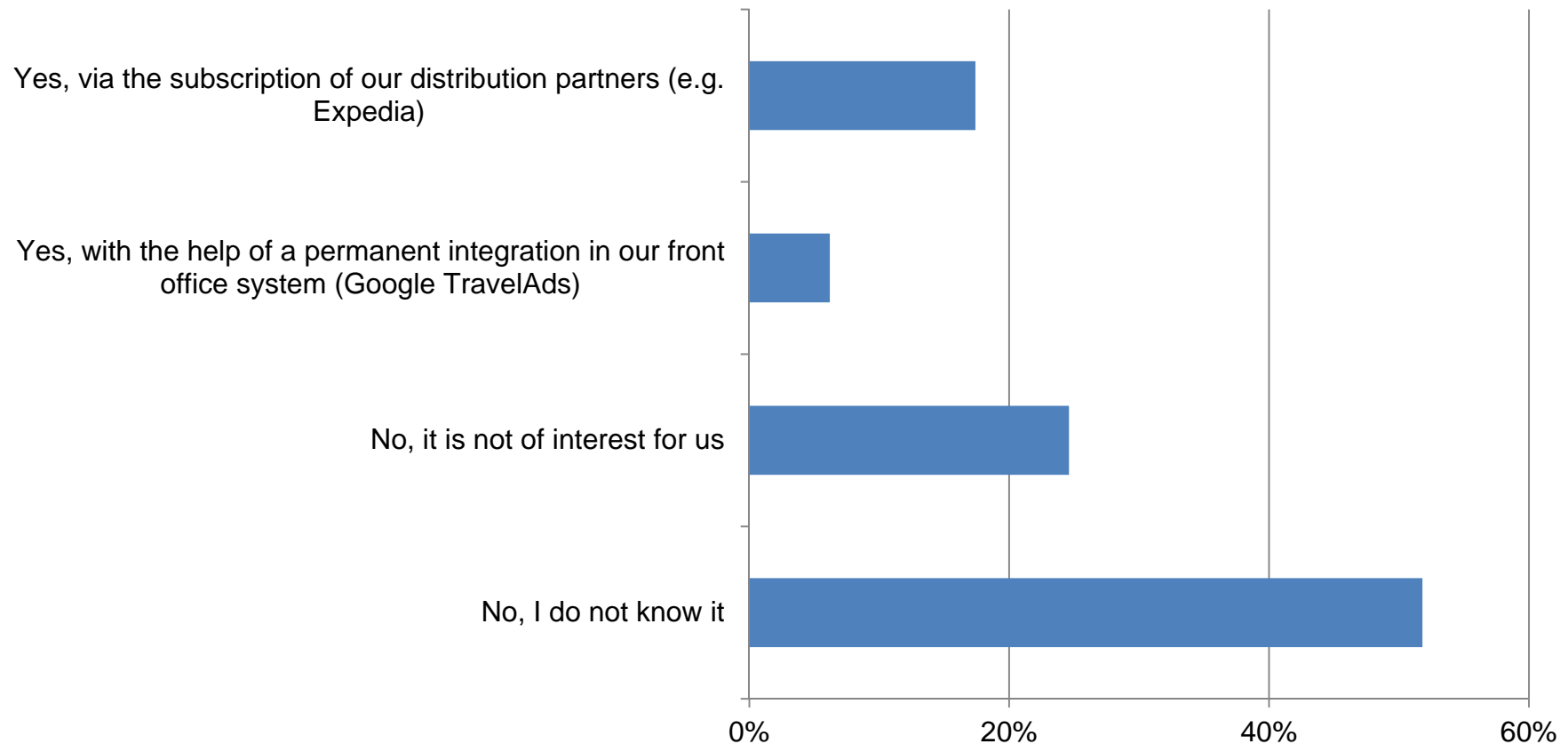
- DeinDeal and Groupon are the key players according to the responses in the survey.

New Forms of Distribution: Are you using mobile distribution channels?



- Use of mobile sales channels increased considerably between 2011 and 2012, particularly in 4-5 star establishments (21% with their own application and 46% with mobile version of website), hotel chains and big hotels (> 50 rooms).

New Forms of Distribution: Are you using “Google Hotel Finder “?



- More than half of hoteliers do not know “Google Hotel Finder“ and another quarter does not see the opportunities of this new marketing and distribution channel.
- The active use of “Google Hotel Finder” can be seen in 4-5 star hotels and chain hotels.

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Use of new Forms of Distribution

- New distribution forms such as **flash sales sites** (deals) are only used by a minority of hotels (<15%).
- A trend towards increased **readiness for mobile distribution** in the Swiss hotel industry can be observed. Over 40% of hotels can be booked on mobile sales channels (2011 only one-third). More frequently they use websites, which are adapted to mobile devices (e.g. iPhone), rather than a specific booking app.
- Hotels having invested in those new possibilities of distribution have the following characteristics: 4-5 star hotels, branded hotel and big hotels.

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Recommendations: More direct bookings

- Offer direct bookings possibilities on the hotel website with good visibility and a functional and easy booking form.
- Best Price Guarantee («BAR» – Best Available Rate) for direct reservations on the hotel website to avoid losing customers to other (more expensive) sales channels.
- Motivate visitors to hotel websites to book directly by offering a clear advantage (rate and/or services) and by a well designed booking process (usability is key); reward especially your loyal customers.
- Active management of customer relations (CRM, e-CRM, newsletters, social media).
- Fast and competent handling of inquiries by email, so customers don't need to obtain information by other means.

Recommendations : more direct bookings

- Excellent products and services which motivate customers to talk about your hotel (evaluations) -> word of mouth
- Reputation management: active management of customer feedback on various platforms such as booking.com, TripAdvisor and HolidayCheck with professional tools like TrustYou.
- Master online marketing (SEO and SEM -> Google Adwords) and development of website as the central marketing and distribution tool.

Recommendations: Efficient Distribution Tools

- Direct connection of the online reservation systems with your PMS and / or Front Office enabling up-to-date availabilities and rates on all sales channels.
- Use of standard PMS system (avoid development of internal systems or the use of outdated software) with interfaces to all relevant GDSs and OTAs
- Use channel manager systems for efficient work with distribution channels.
- Develop knowledge on distribution channels and mechanisms (cost structures, market positioning of channels, booking technology, etc.).

Recommendations : clear Distribution Strategy

- Only hotels visible on distribution channels can be booked. Visibility on websites of intermediaries can stimulate direct bookings on hotel website («billboard» effect).
- Avoid dependence on dominant OTAs.
- Best deals on direct channels such as your own homepage.
- Maximum availability (no «empty shelves») on direct channels, in particular on your own hotel website.
- Preferential treatment of low commission distribution channels.
- Differentiation strategy with different offers on different channels (packages, prices, terms and conditions, payment and cancellation options, etc.).

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