



Breaking the Hotel Addiction to OTAs - By Madigan Pratt

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Online travel agencies (OTAs) are a valuable marketing and third-party distribution resource for hotels. Used in moderation they can provide a base level of occupancy, a steady stream of revenue and help during seasonal troughs. However, when taken to excess, OTAs can be hazardous to the financial health of your hotel.

There are many things in life that, when used in moderation, are fun and even good for you.

Chocolate, wine and sex are good examples. However, when taken to excess they can become addictive and hazardous to your physical and financial health.

The same holds true in hospitality...

Online travel agencies (OTAs) are a valuable marketing and third-party distribution resource for hotels. Used in moderation they can provide a base level of occupancy, a steady stream of revenue and help during seasonal troughs.

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Consider the following facts:

1. **OTA Share Increasing** - 2009 and 2010 were not banner years for the travel industry causing hotels to rely more heavily on third parties. According to online consultant [Phocuswright](#), share of sales on hotel websites fell dramatically as they continued to divert more inventory – and sales – to OTAs.

Phocuswright also points out, "OTA and hotel websites attract different types of customers – OTAs draw budget-conscious consumers while hotel websites lure more frequent, higher spending travelers."

2. **Maximizing RevPAR** – An extensive study of more than 10,000 hotels by [STR Analytics](#) concludes, "the more properties dropped rates, the worse their RevPAR index change was, indicating that the upside in occupancy performance did not compensate for the sacrifice in rate."
3. **A Billion Here, a Billion There** - According to a [Hospitality eBusiness Solutions \(HeBS\)](#) analysis, "hotels stand to lose a staggering \$5.4 billion in revenue leakage through third party sites in 2010." *A billion here, a billion there and pretty soon you're talking about real money!*

Many hoteliers are becoming addicted to OTAs – dumping inventory and waiting for large checks without stopping to calculate the hidden cost of commissions, which are deducted before payment to the hotels. Hidden commissions that hotels pay to OTAs (the leakage) are a marketing expense.

This is money that could be used to market directly to potential guests to get them to book direct.

3 Steps to Breaking this Addiction Cycle

If your hotel is receiving a considerable portion of guests through OTAs, here are three steps you need to take now:

1. **Identify Your Hidden Costs** – There’s probably no line item for “OTA Commissions” in your budget. So you can’t simply run a report to get actual costs. That’s why we created a special Hotel-OTA Hidden Cost Calculator. How much is your hotel spending? You may be surprised. Use our Hidden Cost Calculator at www.MadiganPratt.com/Calculator.

In the example above, this relatively small 75-room resort is getting one-third of its business from OTAs. The cost? More than \$400,000!

That’s probably more than the hotel’s total marketing budget, which supports the other two-thirds of its business including direct (a much more profitable source).

How much is your property contributing to the estimated \$5.4 billion that hotels are sending to the OTAs? How addicted is your hotel?

Hotel-OTA Hidden Cost Calculator	
1 Number of Rooms	75
2 Average Annual Occupancy	65%
3 ADR	275
4 OTAs % of Total Revenue	33%
5 OTA Commission/Margin	25%
Total Annual Spend on OTAs	\$403,696
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2. **Determine Your Ideal Sales Mix** - Now that you know your hidden costs, it’s time to reclaim this money and put it to better use. To do that, you need to decide what the ideal mix of direct and indirect business should be for your hotel and establish targets. What will be your mix for the next six months? One year? Two years? You get the picture.

Use the Hidden Cost Calculator to play out several “what if” scenarios. What if the hotel in the example above could keep everything the same, but reduce OTAs as a percentage of total revenue from 33% to 20%? They would reduce their annual OTAs spending to \$244,664, saving close to \$160,000 annually.

Some of the anticipated savings will need to be reinvested in marketing to build more profitable direct business. And herein lays the dilemma. Can you afford to invest in the direct channel before you begin to realize any savings? The answer is yes, but only if you employ the right strategies. The earlier you start the easier and more profitable it will be. As with any addiction, the longer you wait, the more dependent you become and the harder it is to break the cycle.

3. **Refocus on Direct to Consumer Marketing** – Now that you know what percentage of your business OTAs *should* represent, it’s time to reorient your marketing. If you are going to invest in direct to consumer marketing, there is only one rule to remember – invest where there are proven results and a positive return on investment (ROI).

There are a slew of marketing approaches, but the one that continues to provide consistently outstanding performances is Customer Relationship Marketing or CRM. We have seen CRM:

- Increase a profitable luxury hotel’s direct business from 25% to more than 65%.
- Assist another small luxury hotel in avoiding OTAs altogether. It now maintains its destination’s highest level of occupancy and has 80% direct bookings.

- Help several hotels minimize rate reductions and recover quickly from recessions.
- Give hotels control over their destiny as opposed to handing it over to a third party.

CRM is a discipline designed to both acquire and retain profitable guests. Its roots are in the science of direct and database marketing. It may appear similar to traditional advertising, but is a very different way to approach customers, nurture relationships and build direct sales.

CRM is bigger than the Internet . It integrates all of the marketing disciplines, including the

Internet, direct marketing, advertising, public relations and promotion into one cohesive communications program. The program is designed to move individuals along the customer lifecycle, from building awareness through creating a loyal, profitable repeat guest.

The foundation of CRM is a database, which is fed by all marketing activities and is constantly updated, segmented and fine tuned to reach guests and prospects on a one-to-one basis with targeted messages (see chart below). Communicating one-to-one and encouraging dialogue builds relationships and loyal guests.



Beginning the path to recovery with CRM

Well, it's not a simple process. If it were, every hotel would be doing it. The rewards, however, far exceed the cost for hoteliers looking and willing to refocus their marketing approach. As with any recovery, it's one day at a time. CRM is a gradual process, where your hotel gets stronger with increased direct business over time. But at some point you need to commit to doing things differently or resign yourself to being happy with the results you're currently receiving.

Here are a few things to get started:

- **Make sure your Internet strategy is in order.** Your website needs to be up-to-date, easy to navigate, search engine optimized and have a user-friendly booking engine. How does your site compare to your competitors? Analyze your web stats and make adjustments as needed.

- **Build and maintain a high quality database of prospects and guests.** Do you have a newsletter sign-up on your website? Be sure to capture personal data, which you can use to segment individuals to deliver relevant information.
- **Ban the “blast” mentality.** You don’t like being blasted with mass emails and neither does anyone in your database. If your agency wants to send an “email blast,” it’s a sure sign they are clueless about direct marketing, one-to-one marketing or CRM.
- **Critique your messages.** Are you sending informative, creative and engaging news about your hotel and destination (and a special or two) that nurtures a relationship and keeps your hotel top of mind? Or are you blasting people with special sales hoping to find someone in the mood to book? Being relevant is much more effective at building immediate and long term sales, and brand equity.
- **Keep the relationship going.** Think of CRM as building customer relationships before, during and after a stay. Most hotels, particularly small luxury hotels, pride themselves on taking excellent care of guests on property. That same care must be taken in all marketing messages to nurture each relationship. CRM keeps the focus on customers in a closed loop process, not on “transactional” stays.
- **Don’t ignore travel agents.** Use the same direct marketing techniques to build relationships with travel agents. They can be a productive source of business and a more favorable commission rate than the OTAs.

CRM can help dramatically increase your share of direct bookings, build more loyal customers and make your hotel more profitable. (Research has proven that companies with the most loyal customers are also the most profitable.)

Summary

Without question, OTAs are a very important distribution and sales channel for hotels. They can be a valuable marketing partner when used in moderation. But OTAs are increasing their share of hotel sales, which should make hoteliers stop and ask, “just how addicted are we to OTAs?”

Using the Hotel-OTA Hidden Cost Calculator at <http://www.MadiganPratt.com/Calculator> will help provide the answer. Once you quantify the hidden costs, you can develop marketing strategies to maximize occupancy and revenue in the years ahead.

That strategy will most likely include increasing the percentage of your direct business. If it does, then you should seriously consider implementing a customer relationship marketing program to increase customer loyalty and profitability.

About Madigan Pratt

Madigan Pratt has more than 25 years of strategic marketing communications experience, including advising Fortune 500 companies, Tourism Boards, destinations, and luxury resorts. Madigan leads a team of marketing, public relations and social media professionals at Madigan Pratt & Associates. Originally founded in New York and now headquartered in Williamsburg, Virginia, Madigan Pratt & Associates is an award-winning marketing and advertising agency specializing in customer relationship marketing for hospitality and luxury service clients.

A well published author and popular conference speaker, Madigan provides expert counsel to the hospitality industry and publishes tips at [Hospitality Marketing Blog](#). He has served on numerous travel industry association boards

including the Caribbean Tourism Organization, The Association of Travel Marketing Executives and HSMAI Resort Marketing Advisory Board.

Contact

(757) 645-3113

madigan@madiganpratt.com

www.MadiganPratt.com

www.MadiganPratt.com/Calculator

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