How to Manage OTA Channels More Profitably
How to Manage OTA Channels More Profitably

Acquiring guests through OTAs and other online distribution channels is not getting any cheaper. Hoteliers must use a multi-pronged strategy to drive demand at the right price point.

The news in January that Expedia had acquired Travelocity for $280 million, followed a month later by word that Expedia had agreed to acquire Orbitz Worldwide for $1.6 billion, made hotel revenue managers a bit nervous. Here was an already powerful OTA swallowing competitors to become even more powerful. If nothing else, the pair of deals would certainly broaden Expedia’s already healthy market share.

A report from consulting firm HVS, issued in July, confirmed the growing power of Expedia and its archrival Priceline. According to HVS, Expedia controls approximately 70% of online travel agency bookings in the U.S., while Priceline controls roughly 62% of European OTA bookings.

With just these two key competitors, hotels find themselves with far fewer options when it comes to negotiating commissions, HVS reported. They reported hotels in many markets were paying upwards of 30% commission, “which places a heavy burden on hotel profit margins.”

Revenue managers have become the soldiers on the front line in the ongoing struggle with the OTAs. Their objective is—and always has been—to maximize their hotels’ revenue and ultimately their profitability. Today’s revenue teams talk about “the cost of acquiring a reservation” through an OTA versus the cost through other channels. While the OTAs are viewed very much as their partners in distribution, the cost of an OTA reservation is, hands down, the industry’s highest.

Fearful of losing even more control of their inventory, hoteliers are now focused on maximizing revenues on even the more costly OTA channels. The ultimate goal? Ensure your hotel rooms are being marketed to the right traveler at the right time at the right price and on the right channel. Here are nine tips to better manage your inventory on OTA channels.
1. Don’t forsake the brand

Well-known branded hotels—with greater visibility and access to stronger channels of their own—may be better positioned than independents when it comes to the OTAs’ commission demands. But no hotel is immune from having to negotiate, depending on the market, the comp set, and especially during periods of weak demand.

Research suggests that in many cases consumers are still consulting brand.com for information, but then jumping to OTAs for booking, allowing OTAs, in effect, to eat their lunch. The situation has improved somewhat. But too many brand.com sites are still not where they should be in terms of communicating the dollars-and-cents message, especially at the economy and mid-market tiers. Email and social media are additional tools that can be used to better advantage.

In addition, the ease and speed of booking need to be better. When both brands and independent hotels upgrade their sites, which they do periodically, the project is typically under the auspices of the hotel’s marketing department. Priorities should be on improving the user interface and overall user experience, which leads to higher conversion rates and, further down the funnel, more revenue. Therefore, hotels would be wise to include a seat at the table for the revenue management department.

2. Proceed cautiously with rate parity

In theory, the idea of rate parity—where all publicly available rates for a given room on a given night are identical—was a good one. But in many instances, it has tied revenue managers’ hands when it comes to generating additional revenue. At the same time, revenue managers who opt to disregard rate parity proceed at their peril.

So hoteliers must create new pricing strategies to overcome parity restrictions, including offering promotions and value-adds through guest recognition, opaque offers and offline channels. Hoteliers are becoming more sophisticated with their pricing, finding ways to fence deals or offer personalized promotions to a segment of customers without breaking contractual agreements.
But it’s a tight line to walk as revenue managers who undercut publicly available rates run the risk of jeopardizing their OTA partnerships and losing the valuable bookings that OTAs drive to the hotel in times of weak demand.

Until rate parity disappears from their OTA contracts, hoteliers’ best strategy remains keeping their publicly available rates in parity on all channels. Meanwhile, they should be constantly reevaluating their business mix and becoming more strategic with regard to which distribution partners they work with.

3. Segment by channel

Instead of revenue managers segmenting their product by geography or demographic, they should consider segmenting by channel. Segments include the hotel’s website, brand.com, the call center and the hotel’s own reservations line. Business travelers have their negotiated rates as do groups, while the OTAs offer primarily three segments: those strictly booking the room, those booking the room as part of a package and the opaque sites.

Revenue managers will want to yield OTA packages separately because there are times when it makes sense to price that channel differently: lower rates on many—but not all—occasions. On nights when the hotel is expected to sell out, for example, why offer a discount for an OTA package? It’s simply lost revenue for the hotel.

For too long, hotels have been used to viewing data one way. Greater flexibility, by contrast, allows for better yielding and forecasting.
4. Understand the new loyalty equation

In a world of channel segmentation, hotel loyalty programs become even more important as revenue managers can offer discounts to the hotel’s most frequent guests. Because loyalty programs allow members to login, the system can identify these guests at the point of booking. Accordingly, the hotel can use these logins to display discreet offers—including lower rates. Such fenced offers don’t violate rate parity agreements with OTAs and would incentivize guests to book directly.

These discounted rates can be segmented further, based on the expected profitability of the stay. One segment, for example, might include guests who stay 15 nights a year over peak dates in a deluxe suite versus another segment, where the value-conscious guest books a standard room, but stays 40 nights a year.

The hotel could also offer these frequent guests the same rates as the OTAs, but offer more perks on one of its own channels as a way of driving more business that books direct.

5. Move away from BAR

Hotels continue to revenue manage using a fixed-tier best available rate (BAR) because it’s easy to implement and manage. But such simplicity is the exact reason it’s not the best choice. With a fixed-tier strategy, revenue managers typically set the BAR at the lowest publicly available rate on the hotel’s website. All other rates adjust accordingly, usually based on a percentage difference from the BAR.

The loyalty program rate, for example, might be 15% less than the BAR, the OTA package rate 35% less, all the way down to the OTA opaque rate that might be discounted as steeply as 45%. As the BAR fluctuates in real time, all the other rates follow suit.

While such an approach is simple, it’s also rigid and results in revenue being left on the table. Hotels, furthermore, miss the opportunity to use differentiated pricing that takes into account the needs and preferences of customers booking on different channels. Are certain customers who are booking through an OTA, for example, only willing to accept a 35% discount? Not 30% or even 20%?

To capture as much revenue as possible, hotels should be able to determine the right rate for all the various segments of their business every day. With the help of cloud technology, you can yield all channels, segments, room types and offers independently, without ever having to close any off. Owners need not be slaves to a rate structure that no longer optimizes their revenue.
6. Keep channels open all the time

By yielding all channels, segments and offers independently, revenue managers can keep all channels open so their inventory is being marketed in all the places consumers might be shopping. Using a fixed-tier BAR structure means hotels are often forced to either sell those OTA package rates at 35% less, or close the channel on higher demand days to drive more direct bookings.

The danger in this approach is when a consumer is looking only at that package OTA site for a four-night stay, and your property isn't listed because on one of those days you've closed that channel. What if the other three days are ones you are desperately looking to fill?

Even if you've skirted the last-room availability issue with your distribution partner, by keeping the channel open and yielding up the OTA package rate on that compressed date to 10% less or even 1% less than BAR, your property will be listed and available for that customer who wants to book those four nights.

7. Opaque and last-minute are still relevant

Unfortunately, there are times when dumping inventory at the last minute is the only option. Perhaps a group block of 30 rooms cancels two days before their stay date. Advanced hotels can do their own marketing efforts by pinging frequent guests, but typically working with a large distributor will be more effective.
Flash sale sites and opaque OTA channels are one of the few distribution channels today where revenue managers can implement a creative strategy. You can conduct “secret sales,” for example, where the revenue manager can dispose of a large block of rooms that have unexpectedly become available. To generate bookings quickly, the rate will be discounted heavily, but on an opaque OTA site like Hotwire the consumer at large won’t see those prices in advance of booking.

Another option might be to use a last-minute distribution site like HotelTonight, which will bring you last-minute revenue typically at a discounted rate with a commission.

Revenue managers today have access to far-reaching data on consumer behavior that can be helpful in predicting booking preferences, timing of booking and even rates consumers are prepared to pay (the value equation), data that wasn’t available as recently as a few years ago.

New technologies are making it possible to collect and correlate information from previous guest stays at the hotel, consumers who visited brand.com but booked elsewhere, those who booked directly with an OTA and so on. Revenue managers are afforded a broader, more sweeping view of the traveling public’s buying decisions, which in turn gives them insight in setting realistic revenue goals and strategies at the property level.

It’s the exact same information the OTAs are using to their advantage when designing the sites and programs that are driving so much business to their brands. Hoteliers would be wise to follow suit.

In the past, many revenue managers opted to work exclusively with one OTA, putting all their eggs in one basket, assuming they would be able to cut a better deal with the OTA on commissions, positioning on the OTA’s site and other benefits. In return, the OTA would see increased bookings and the highly desired market share gains.
Increasingly, these revenue managers grew skeptical. Their counterparts at other hotels, after all, had the same idea. Now the thinking is it makes more sense to have eggs in everyone’s basket--and to use the possibility of getting more market share from the hotel as the lure to get greater consideration from any one OTA.

Pay close attention to last-room availability clauses as well, and shy away from them when possible. Last-room availability has allowed OTAs to continue selling rooms as long as they are available at the hotel. Hotels, even when they knew they’d sell out, could not completely close those channels and sell their remaining inventory directly for higher profit margins.

Closing OTA channels could drive direct bookings and more bottom-line revenue for the hotel, but the danger is the hotel’s inventory won’t be available at times on these popular sites. What if potential guests are looking to book a five-night stay and don’t see availability on the sites they’re shopping?

The better scenario for hotels would be leaving those channels open, even on the most compressed dates, but yielding discounts dynamically or zeroing out those margins. In other words, OTAs could continue to sell rooms over that high-demand Saturday, without charging commission, or the rates would be higher than the best available rate to offset the hotel’s commission fees.

**Conclusion**

While hotels are making advances in terms of managing their uneasy relationship with the OTAs, the OTAs are hardly sitting on their hands. Expedia and Priceline, among others, invested heavily to build their brands and continue to invest in innovation to maintain their position in the marketplace.

Meanwhile, informed revenue managers are doing their part to strengthen the lodging industry’s hand. It’s time for the industry’s most well equipped department to implement all the data available today to get a clearer picture of their booking data and manage all their channels for maximum profitability.
About Duetto

With solutions that address the true challenge of today’s distribution landscape, Duetto provides unique and powerful revenue strategy tools to optimize profit and guest loyalty. Duetto delivers powerful insights on pricing and demand to hotels and casinos through a 100% cloud-based application.

Utilizing new consumer-centric data sets such as web shopping regrets and denials, social review, air traffic, weather and more, Duetto GameChanger transforms the way hotels and casinos price and sell rooms by providing better and more actionable information. Make informed distribution choices and independently yield all channels, dates and room types with open pricing to drive healthy revenue and optimize profitability.

Thanks to modern cloud architecture, new features and upgrades are delivered seamlessly with zero system downtime. This rapid innovation enables Duetto to provide an industry-leading user interface and experience that’s continually improving.

Working with and for the hospitality industry, Duetto is changing the game.