



Hotel Brands, On Line Travel Agents and Customer Loyalty

Daniel Larkin, Partner and Co-leader of the Global Hospitality Team at Bryan Cave LLP takes a look at how the rise of online travel agencies is impacting the hospitality sphere.

At first the growth of internet availability and functionality presented hotels and other travel service providers with a new opportunity to interact directly with their customers and disintermediate conventional travel agencies. However, it has also spawned the growth of online travel agencies (OTAs) such as Expedia and Travelocity, who have invested significantly in reservations and marketing platforms as well as internet savvy staff, and garnered a major share of hotel reservations traffic at commissions well above historic norms.

Hotels big and small are now facing a very real challenge in the form of OTAs who are beginning to dominate this space. With the lines getting increasingly blurred, slowly the major hotel brands are fighting back. Their own online offerings are increasingly sophisticated and functional, and they have broadened their physical inventory through brand families, flexible franchising programs, affinity brands and marketing affiliations. Nonetheless, the OTAs cover all brands and destinations, and offer price comparison options and special discounts that not even the biggest of hotel groups can.

For independents and smaller brands, the challenges to regaining control of mainstream booking channels are still daunting. Marketing associations are helpful but cannot afford the investment in internet platforms the OTAs can. Some major brands have offered access to their websites to independents and smaller brands to deepen their distribution, but this is causing tension with fully branded properties on the sites. A focus on product is also the path for many independents to respond to OTAs' marketing presence, especially for smaller iconic and boutique hotels who have a loyal clientele that knows them well and accesses them directly through specialist luxury travel agents and marketing associations such as Leading and Preferred.

Customers do of course still have loyalties to specific brands and brand families, but booking through an OTA doesn't limit their ability to collect loyalty points from a brand, and OTAs now have their own loyalty programs. While a savvy traveller may have a particular fondness for Westin for example, a JW Marriott right nearby at a meaningful discount will suit just fine. The brands still do

offer that personal touch, especially at property level, where you can speak with an individual personally familiar with the hotel and it's place in the community. But the chains are also ever more likely to route calls to someone far away with no local knowledge and limited authority or time to cater to individual preferences.

More importantly today, especially for experience-driven millennials, customers are attracted to brands that match their well-developed (and personally researched) product and service standards. So fitting into a specific quality category of peers is an important objective for all brands alike. And these are still defined by specific established and emerging brands and their peer groups.

The brands and OTAs are also moving into a more benign relationship with each other. Brands appreciate the ability of the OTAs to deliver heads in beds they might not garner on their own, and the major ones have evolved their OTA pricing terms to within reach of historic travel agency norms. However, for independents and smaller brands the OTAs are still commanding high commissions.

Some OTAs are even experimenting with lodging ownership and management, though this remains experimental and fraught with potential conflicts with major distribution partners. While busy travellers appreciate the time savings and pricing advantages of booking through OTAs, they still have their own determined views, based on experience with specific branded hotels, and do not look to OTAs in this respect.

The hotel industry has always fostered and thrived with third party booking channels, and the largest of them have always been able to bargain hard with major brands on pricing and room availability for their own clientele. The major OTAs have dramatically changed the character of the playing field, and garnered handsome profits in doing so. Looking ahead, others are eyeing this space, and the major chains in a consolidating industry are ever better equipped to invest in the reservations and marketing platforms to better leverage their control of the underlying lodging product.

