



# OTA DISTRIBUTION STRATEGY

The essentials of managing OTA distribution for independent hotels

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## Introduction

For independent hotels, navigating the murky waters of hotel room distribution channels can be a daunting prospect. A single property or a collection of a few properties is no match for the vast networks the OTA behemoths control. Like a paper boat floating alongside a massive cruise liner, without the right strategies in place, an independent property can quickly sink into the depths of steep commission fees and loss of pricing integrity. This whitepaper provides tips for independent hotels in leveraging OTA partnerships without undermining proprietary loyalty programs or direct booking channels. Ultimately, it's important to remember that choices exist for smaller independents, including the possibility of remaining ashore in certain cases.

Distribution strategy encompasses how inventory, rates, and products are sold; this includes the process and connections through which hotels provide inventory and rates to consumers. Examples of distribution channels include the GDSs (Global Distribution Systems), OTAs (Online Travel Agencies), and other third parties such as wholesales/tour operators. Call centers or contact centers, and hotel booking engines for both PC and mobile are also distribution channels, but they would be classified as 'direct'. It's imperative for hotels to ensure these direct booking options are accessible to customers since it's ultimately the most profitable avenue. Due to commission fees, particularly for independent properties, OTA bookings are generally among the costliest when compared to other channels. These partnerships, however, are often deemed necessary in order to remain competitive. To start, here are a few key questions to ask before engaging with an OTA partner.

## Questions to ask before engaging in OTA partnership

- Are OTA partnerships necessary to optimize overall revenue? Can occupancy and revenue targets be met through other channels without engaging in costly OTA distribution?
- Will technology support the OTA distribution strategy? Is a channel manager application in place for smooth rate/inventory updates and reservation delivery? If not, is the property willing to handle it all manually? (Increasingly, handling it manually is not a feasible option.)
- Which OTAs should be considered?
- Expedia and Booking.com generally dominate, with Expedia having more penetration in the US. Others like HotelTonight (now under AirBnB) and the GDS and consortia may only produce in business travel markets or larger metro areas. New OTAs are entering the market as well, Hopper, for example, and these newcomers might be easier to work with in that they make fewer demands and offer exposure only when needed.
- Should wholesalers\* be considered? While they might fill rooms, they tend to dilute the rate and can cause issues with rate parity, particularly on metasearch sites.

- OTA business has several models, retail, merchant, and opaque; decide which ones are best for your property. With certain OTAs, you might be required to offer both retail (prepaid) and merchant (pay-on-arrival). Also, when thinking about opaque, keep in mind that the effectiveness of this model is dependent on the type of property and market (often, it's not opaque at all)

*\*A wholesaler is essentially a middleman. It sources hotel room nights in bulk, packages them, negotiates rates, and then sells them to OTAs and travel agents.*

Once these questions are considered, reviewing the pros and cons before deciding on the best approach is advisable. Key strategies, along with the potential benefits and common pitfalls, are listed here.

## Strategies for effective OTA utilization

- Hotels should carefully choose OTA partners that align with their target audience and values.
- Encourage guests to book directly through the hotel's website by offering exclusive perks such as loyalty points, room upgrades, or personalized services, and always, of course the best available rate.
- Maintain consistency in pricing across all platforms to avoid guest confusion and protect brand integrity.
- Differentiate loyalty program benefits from OTA offerings to retain customer loyalty. Emphasize perks like personalized experiences, special amenities, and probably most especially, personalized recognition on property.

## Benefits of OTA partnerships

- With billions of dollars in marketing, OTAs possess a massive user base, granting hotels access to a global audience that may otherwise be hard to reach.
- Bring in business when it would otherwise not materialize
- Able to capitalize on potential ancillary spend (such as food and beverage or gaming for casino properties)
- Provide a channel for bundled (air and room, e.g.) bookings – specifically filling a functional gap the property cannot easily offer on its own

## Potential downside of OTA partnerships

- OTAs can become too large a percentage of the overall channel mix, which can be a problem since OTA partnerships often involve substantial commission fees, affecting profit margins.

- Managing OTAs can divert financial or staff time and resources from finding higher-profit business.
- Could erode the overall rate strategy of the property. Overreliance on OTAs can lead to diminished direct bookings, impacting a hotel's overall revenue stream.
- Might feed a downward price spiral in the competitive set and not bring in enough demand to make up for the rate reductions
- Could reroute customers who would otherwise book through higher-profit channels
- Some properties might have issues maintaining rate parity across all channels once OTA distribution partners are introduced.
- Often promoted close to arrival, can train customers to wait until the last minute to book.
- Guest information is incomplete on reservations and has to be captured at the time of check-in.
- Partnering with multiple OTAs might lead to a loss of brand control and differentiation, potentially overshadowing a hotel's loyalty program.
- If guests are not marketed to directly, the property risks getting repeat OTA bookings from the same customer (OTAs have their own aggressive loyalty programs)

## Conclusion

Effectively utilizing OTA partnerships without diluting a hotel's own loyalty program or direct rate requires a balanced and strategic approach. By asking the right questions, selectively choosing partners, and understanding the common pitfalls, hotels can benefit from the reach of OTAs while also nurturing their own direct booking tactics and growing their loyalty database. Don't just dive right into that turbulent sea of distribution channels, take some time and make sure to test the waters first.