

Hotel brands see benefits in direct booking

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Date : August 15, 2016



Hotel CEOs Think Their Direct Booking Pushes Position Them for Long-Term Gain

Skift Take

The big talking game we saw during the first quarter may have softened a bit in the second, but it's clear hotel CEOs are committed over the long term to pursuing and winning the direct bookings war.

— Deanna Ting

Hotel **CEOs** have a lot on their minds these days, from [terrorism](#) and [softening corporate travel business](#) to **Brexit** and **Airbnb**.

And although they're guardedly positive about business for the rest of this year, one thing

hotel **CEOs** have been particularly bullish about in the past few quarters are their respective direct booking campaigns, most of which involve discounted rates for their loyalty program members. That was especially evident during their [first quarter earnings calls](#), as well as the most recent spate of calls for the second quarter.

Marriott and Hilton were the first major U.S. **brands** to push direct bookings and member rates on a more global scale, and that was soon followed by their peers, including **Hyatt Hotels & Resorts**, **InterContinental Hotels Group**, **Wyndham Worldwide**, **Choice Hotels**, and others.

But not all hotel players, notably [Red Lion Hotels](#) and AccorHotels, have followed suit. **Sebastien Bazin**, **AccorHotels CEO**, told [Skift](#), “Are they [hotels launching direct booking campaigns] going to be successful in taking market share away from Booking and Expedia? I doubt it.”

“The brands are very positive on direct booking, but they admitted there may be some short-term pain for that they think is some very long-term gain,” said Michael Bellisario, a senior equity analyst at Robert W. Baird.

“Some of those rates are diluting their RevPAR (revenue per available room, a popular performance metric for the hotel industry) in the near term — maybe as much as 25 to 50 basis points in drag,” he added. “That’s not helping the already tough rate environment they’re facing, and the fact that consumers are shopping around and they have so much booking technology at their fingertips. But the brands are still optimistic that it’s working.”

Now, one or two quarters into their campaigns, those **CEOs** pushing direct bookings offered additional insights into how their efforts are playing out.

Here’s what the hotel **CEOs** had to say, put into context with comments they’ve made previously about booking direct.

Hilton: ‘This Is a Long-Term Strategy’

In April, discussing first quarter results, **Hilton CEO Christopher Nassetta** said the early results from Hilton’s largest-ever global marketing campaign, [“Stop Clicking Around.”](#) which debuted in February, resulted in a 90 percent increase in Hilton HHonors membership enrollments and a 55 percent jump in HHonors occupancy levels.

He also said direct channels (referring specifically to Hilton.com and the Hilton app) accounted for 25 percent of Hilton’s business, while “OTAs are, plus or minus, 10 percent of our business.” Nassetta summarized, “The direct channels are significantly larger than those channels and they are growing at a much faster pace.”

Most recently, Nassetta said HHonors enrollments were up 80 percent year over year, with 2.4 million new members in the second quarter, totaling more than 55 million members; HHonors occupancy rates stood at nearly 56 percent. The Hilton HHonors app, he said, generates 23 percent of Hilton’s direct web traffic, and the rate of downloads for the app are up 66 percent

year over year in the quarter to nearly 1 million downloads.

Whether all these increases in membership enrollments and app downloads are actually translating into more direct bookings for Hilton, however, was not clear.

While he said he was pleased with these results, Nassetta stressed that this campaign will continue for a long time and that it's still too early to fully realize the scope of impact from the campaign.

"This is a long-term strategy. This isn't a flash in the pan," he said. "We're going out and doing a Stop Clicking Around campaign. That's the beginning of years of effort and initiative to really evolve HHonors as a club to better serve our customers and to continue to bring more people into a very direct relationship with us." He later added, "We're going to have to stay very vigilant, again, with the objective, giving our customers the best value and the best experience."

When asked how Hilton's hotel owners feel about the direct booking discounts being given to loyalty members, he said, "They have been very, very supportive, as a group, of all of our initiatives, and I believe that they are benefiting from it ... On a net rate basis, our owners are making out in a big way. As this continues, if we're successful, and we certainly plan to be, I think the net rate benefit is going to accelerate, and that is the objective."

Marriott: Short-Term Pain Hopefully Leads to Long-Term Gain

Speaking of the impact of discounted loyalty member rates on hotel owners, **Marriott CEO Arne Sorenson** said that there may be some "modest impact" related to revenue per available room that those owners receive, thanks to [Marriott's Rewards Member](#) rates, which launched in March.

"It has had a modest impact, we think on RevPAR in Q2, probably in the 30 to 40 basis point range on reported RevPAR, which in a sense you could look at and say that is a negative impact of it," Sorenson said. "But this is a long-term question for us."

"It's still to be determined to see how it all plays out for the owners," Baird's Bellisario said.

Like Nassetta, however, Sorenson also stressed that the push for more direct bookings isn't a short-term play.

In April, Sorenson said it was still too early for Marriott to give any depth to the effect that the new book direct rates were having on its business. This month, he said the Marriott Rewards Member rates were contributing to 50-percent member occupancy levels, "strong growth in apps download and Marriott.com business and mobile bookings and all those things."

Hyatt: Member Rates Leading to Bookings, But Not Necessarily the Ones You'd Assume

In May, **Hyatt CEO Mark Hoplamazian** stressed that [Hyatt's new member rates](#) would be what he called a “yieldable rate” or “manageable rate by the hotels.”

“So they’re not required to sell the member discount rate at any given point in time,” he said. “And the level of discount that they apply is actually in their hands. Now we’ve got recommendations for them, and we’ve modeled how they should be thinking about pricing in different points in time based on data that we’ve got, that we’ve analyzed. But otherwise it’s really in their hands.”

He reiterated those statements again in August, saying, “Importantly, we do not believe member discount is negatively impacting our top-line. In fact, a majority of hotels utilizing member discount rates are gaining share in both ADR [average daily rates] index and RevPAR index compared to prior year. Since the rollout of the program, over 70 percent of the revenue associated with member discount click-throughs has been sourced from new or previously inactive Gold Passport members.”

Interestingly, he also noted that a large majority — about 70 percent — of customers clicking through the direct booking offers aren’t actually booking the Hyatt Gold Passport rate. Instead, they’re booking other rates that they are finding on Hyatt.com. “As such, only 30% of those who click through and book, actually book the discounted rate,” he said.

What’s driving this type of buying behavior among guests? Hoplamazian said Hyatt is currently trying to better understand this.

“We’re actually doing more work on this right now to see if we can see other patterns, but I guess, really, the point that I would make, our experience to-date, is that what we’re seeing is an increased level of engagement and increased level of usage of the Hyatt.com platform, whether it’s through the app or through the website, and or through mobile or through the website on PC,” he said. “And so, it’s really driven higher market share, higher channel share for Hyatt.com overall. It just so happens that the actual booking pattern isn’t primarily of member discount rated rates.”

Hoplamazian also said, “The pace of online Gold Passport sign-ups has increased over four times year-over-year. Also, over 40 percent of new or previously inactive members have made a repeat booking with us.” Additionally, he noted, “Room revenue booked through Hyatt.com has increased at a double-digit rate and the overall channel mix related to Hyatt.com has increased since launch.”

IHG: Early Signs of Direct Booking Success

InterContinental Hotels Group (IHG) CEO Richard Solomons claimed early success with [IHG's Your Rate](#) initiative, which [debuted in May](#).

“These initiatives are delivering some really encouraging results,” he said. “We’re driving material increases in revenue contribution for both new and existing IHG Rewards Club Members. Enrolments are significantly up as are points redemptions, a strong sign that

members are engaged with the program and since the launch of Your Rate, we're seeing a material two-point shift in growth rate to direct web from OTA [online travel agency]."

When asked if he thought Your Rate might have a similarly negative impact on revenues for hotel owners, Solomons said, "Look, I think, from an owner's perspective, if done right, [it] is extremely beneficial and certainly our owners are incredibly supportive of what we're doing. And as you know with the IHG Owners Association, we have a very direction ongoing dialogue both in the Europe and the Americas and heavily engaged with what we're doing in let's just advising us and very supportive."

Like his peers Nassetta and Sorenson, he also said, "So even if there were short term impact — which actually from a rate perspective we don't see— the fact that we are creating more loyal customers, driving heavily and driving enrollment into the Rewards Club at a net cost to owners, that is substantially beneficial. We know over time ... that Rewards Club members stay more and pay more than non-brand loyal guests. So it's got to be the right thing to do."

He was also quick to point out that IHG still values online travel agencies as a "very important channel" that's "not going away, nor do we want it to." "It enables us to access price sensitive leisure travel very effectively with travelers who are not going to be brand loyal and we're never going to be able to afford to access directly," Solomons said. "The issue is it's an expensive channel, so the business has to be incremental and profitable, otherwise it's way too expensive."

Choice: Direct Bookings Are Up

Choice Hotels is the newest major hotel brand to enter the direct booking wars, officially launching its [Choice Privileges rate on July 20](#).

CEO Stephen P. Joyce was eager to discuss the company's direct bookings strategy during a second quarter earnings call, and said it was a major part of the company's overall loyalty program enhancement, which began at the beginning of the year.

"We just surpassed 27 million Choice Privileges members. We are on pace to sign-up more members this year than in any year in our history. In fact, already this year we have signed up more members than we did in any year prior," he said.

Even though the new member rates just launched a few weeks ago, Joyce said revenues from Choice's central reservations system (CRS) and loyalty program are rising.

"The revenue contribution of these channels year-to-date increased to 57 percent, up 330 basis points compared to the same period last year," he said. "This quarter we had our highest CRS revenue day ever on June 20th surpassing \$20 million. Prior to second quarter in 2016, we had never surpassed the \$18 million mark for CRS revenue any day in our second quarter."

He added, "Our direct online channels, ChoiceHotels.com and mobile had 15 days with over 7 million in bookings in Q2 2016 compared to only 5 million last year. We hit our first ever \$8

million day for ChoiceHotels.com and mobile in June 2016.” Mobile bookings saw a 22 percent jump in revenues during the second quarter compared to the same period last year as well.

Joyce also stressed he didn’t believe the discounted rates would dilute revenues for his business, especially his owners and developers.

“In the long run, when you think about what it cost you to have a room booked through on OTA versus through our channel, we can afford to give our customers a discount and through the incremental customers we get that our booking with channels and are dramatically more expensive, we’re going to benefit net-net,” he said. “We haven’t seen a RevPAR drag yet; we think it’s at least being offset.”

He added that the direct bookings push makes Choice “a lot more attractive to developers because if they know they are going to get 57 percent of their business from us, that’s going to lower their overall cost of customer acquisition a lot and, quite frankly we’re tired of the fallacy that the lowest rates are on OTA.”

Who’s Winning the Direct Booking Wars?

Frankly, it’s still not very clear. While most major hotel companies did have profitable second quarters, nearly all of them also lowered their expectations for the remainder of 2016, given a number of challenges facing the industry from Brexit and terrorism to a lower-than-expected gross domestic product (GDP).

The statistics they presented for the second quarter, while encouraging and positive, also didn’t necessarily demonstrate a direct correlation between their direct booking pushes and their revenues. It’s still not entirely clear, in most instances, to know exactly how many more direct bookings they are seeing, or how much market share the hotels are taking back from online travel agencies.

The second quarter wasn’t very easy for Expedia or TripAdvisor although Expedia stated it hasn’t been adversely impacted yet by the direct-booking push and TripAdvisor had problems unrelated to the hotels’ campaigns. The Priceline Group had a great second quarter and officials warned hotels that Priceline could engage in discounting if the hotels don’t make their lowest rates available. Whatever challenges or troubles the online travel agencies faced this quarter, they didn’t seem to come from the direct booking pushes by the hotels.

But, as Hilton’s Nassetta and Marriott’s Sorenson pointed out, this isn’t a war that’s won overnight. And there are still a number of [other strategies hotels might pursue to gain economic leverage](#).

Choice Hotels CEO Joyce said during his second quarter earnings call what’s probably on the minds of a lot of his peers when he discussed “the fallacy that the lowest rates are on OTA.”

“It’s not true; they [OTAs] spent \$2 billion a year saying it, but it’s simply not true and we’re trying to get the consumer to be aware that the lowest rates achieved are on brand.com sites

not in an OTA,” he said. “And so I think the entire industry is tired of hearing about the OTAs. We particularly don’t want to be lectured by the OTAs on how we are going to approach the customers and so I think you are going to see a much more aggressive stance, not just in Choice, but across the board.”

This article first appeared in www.skift.com