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OWNER EQUITY BY CHAD CRANDELL
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Book Direct campaigns – friend or foe? What the heck happened to rate growth (Part IV)

(The views and opinions expressed in this blog are strictly those of the author.)

This is Part IV and the last of a series of blogs intended to explore current factors contributing to anemic rate growth. This is a complex riddle to solve, as hotel owners struggle to understand interests that support a profit-centric strategy versus those that detract from it. (Read Part 1, Part 2 and Part 3.)

In this installment, I set out to explore the impact that brand Book Direct campaigns have had on rate. Roughly one year after the implementation of big brand Book Direct campaigns, we are in a better position to evaluate whether providing discount to loyalty members was a) successful in shifting share from major OTAs, and b) more profitable to owners. Admittedly, I was an early skeptic of this strategy, as it set out to discount one of the historically highest-rated channels, while layering incremental costs that accompany these bookings – from chain costs to loyalty guest freebies – as a means for improving profitability.

I reached out to my friends and leading experts in benchmarking net revenue and customer acquisition costs, Cindy Estis Green and Mark Lomanno of Kalibri Labs, to help shed some light on this issue. They shared some early findings of a soon-to-be-released special report detailing the impact of Book Direct campaigns in a sample of 12,000 hotels over six months in 2016. The results were cautiously optimistic… with several asterisks, of course.

While the very act of discounting in an attempt to regain marketshare is not optimal, it appears it may have been necessary (at least for the short term). In fact, it may have been the only means available to brands to catch the eyes of customer and incent them to book direct on their web channels. That being said, the data revealed that the growth of OTA bookings had slowed, while the growth of direct bookings had accelerated. Reports from Expedia's Q2 and Q3 earnings calls indicated a slowing in room night growth, so this is a consistent finding.

OK, while successful in shifting share, we also inquired as to whether the reduction in acquisition costs was greater than the loss in revenue due to discounted rates. The general answer was both YES and NO. Direct bookings' average net rate was still higher than net OTA rates, but while some hotels may have incurred a net cost, the number of recurring loyalty members needed to compensate for that is relatively low for most hotels in the sample.

Like any study, there is the fine print, and here are some points worth noting.

*Not surprising, not all hotels experienced the same level of return and some, in fact, experienced a loss.

*The actual impact was not measured against prior year, but rather against a future predictive performance analysis.

*When you look at the ROI and calculate it on future loyalty guest return rate, this, in essence, amortizes the upfront cost of discounting. Early reports from brands indicate that on average 25% of these guests are showing return potential, but this will be something to watch and measure.

In conclusion, this is not a one size fits all win, although it is not a loss for all. The future behavior of guests, and their loyalty, will be the true test of this programs success in the long run. I do hope the brands will explore other means beyond discounting to encourage direct bookings and continued guest loyalty. Further, I want to thank the authors of the Kalibri study, providing objective analysis to the merits of the Book Direct campaign, and I am delighted that we have such great minds studying this and many other issues weighing heavily on the minds of hotel owners.

Last, while I am pleased to learn that ROI on the Book Direct campaign appears more positive than I had originally thought, I also can't help but think about the risk that is placed on owners in so many of these brand efforts. I believe now is the time to ask brands to put some skin in the game and take a risk on some initiatives that could truly have a positive impact on owner returns – like cancellation fees, for instance. It's time that they put their necks out as much as owners have in the past to level the risk playing field…but perhaps that's discussion for another blog.

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