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What owners must know about Hyatt-Expedia drama

By Guest Contributor on 6/12/2017

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Last week, Hyatt hotel owners received notification of Hyatt's intent to terminate its Corporate Lodging Agreement with Expedia. While the announcement is widely speculated to be a negotiating tactic, if Hyatt and Expedia do not reach a settlement effective July 31, 2017, Expedia, along with related channels (Hotels.com, Travelocity, Orbitz, Hotwire and Hotwire Opaque, Wotif, and the Expedia Affiliate Network) will no longer be approved distribution channels for Hyatt properties.

The decision to cut ties with the OTA giant falls on the heels of several months of negotiation and ultimate failure to come to an agreement on what Hyatt considers to be "reasonable, competitive terms," namely lower commissions and improved flexibility.

In the communication to owners, Hyatt describes this decision as "a powerful step to reduce distribution costs by shifting bookings to lower cost and more flexible channels." Hyatt acknowledged that Expedia and related bookings represent a notable share of Hyatt's business, but remain confident that eliminating the channel will drive more bookings to Hyatt direct, enable more meaningful guest connections and reduce costs (enhance profitability). The brand also cited its relatively new guest loyalty platform, World of Hyatt, which was launched in March 2017 to replace Hyatt's Passport program, is intended to build a stronger community of guests, with enhanced perks and increased engagement.

Hyatt detailed a plan to support this move through what was described as an "aggressive sales and marketing plan" and related initiatives to drive more direct traffic – from increased investment in digital marketing to incentivizing lower-cost booking alternatives, such as travel agencies and travel management companies.

The big questions on the minds of owners remains: what will the impact be (short- and long-term), how much will it save, and more importantly, how much will it cost?

What does this mean for Hyatt owners?

- Unless Hyatt and Expedia reach a settlement, in a little over a month, your hotel will no longer appear or be booked on Expedia, or any related distribution channels.
- Depending on the extent to which your property has historically relied on OTAs, you will likely experience a decrease in bookings, at least on a short-term basis, potentially longer depending on your market and business mix. For example, U.S. properties with a strong International demand base may be severely impacted (Hotels.com is a major player), e.g., Hawaiian markets. Hotels in a highly competitive market, with many options, may be impacted to a greater degree. By contrast, some Hyatt hotels have already been experiencing a temporary suspension or "dimming" effect by Expedia due to other issues between Hyatt and Expedia, and have experienced little to no impact. In fact, Hyatt officials say that the lack of impact through Expedia's punitive dimming gambit was a key motivation for Hyatt to be willing to engage in this brinksmanship. Whatever the impact, it will vary market-by-market, property-by-property.
- Based on the communication from Hyatt: "In support of this sales and marketing plan, Hyatt is reallocating existing budgets, as well as reinvesting money hotels would have otherwise paid to Expedia for its commissions and marketing fund. Accordingly, starting July 1, fees for owners of North American located full-service hotels and global select-service hotels are increasing by 7% (from US$1,435 to US$1,535 per room annually for North America full-service hotels and from 3.5% to 3.75% of rooms revenue monthly for select-service hotels globally). This increase will not apply to full service Hyatt hotels outside of North America.

- Not only could this potentially impact business in the short-term, but it could impact rates related to Hyatt Passport redemptions, where occupancy thresholds need to be reached to be reimbursed at higher rates. Again, this won’t impact every Hyatt, but those with high redemption may be impacted in the near term.
- In theory, commission expenses should go down, depending on how effective Hyatt and the property team are in shifting business to lower cost channels.
- Given the commissions paid to Expedia under the Hyatt/Expedia agreement, Hyatt claims that a hotel will only need to replace 80% of Expedia business to be made whole. That’s true assuming the channel cost of the replacement business is zero.
- As an aside, if you are presently considering or underwriting a Hyatt-branded acquisition opportunity, be sure to dive into the segmentation to understand your exposure within the OTAs, and future marketing expenses.
- Unlike the situation that existed when IHG played chicken with Expedia (and lost) a few years ago, the environment has changed – in Hyatt’s favor. First, there is another gorilla booking site that competes head on head with Expedia – Booking.com. Second – and perhaps more important – is the way in which many searches originate which is through meta sites like Google or Trivago. That was not the case when IHG tried to stand up to Expedia. Today, when a customer goes that route, Expedia is one of many options (though probably the first and most prominent) along with brand.com. That will certainly have a material impact on the booking equation.

Risks to Hyatt

Besides the obvious potential to lose share and the indirect costs described above, Expedia is a financial behemoth compared to Hyatt. If they want to play hard ball, they could outbid Hyatt for key word searches on the meta sites, and direct click throughs to Expedia properties. Hyatt has smartly taken pre-emptive steps to try to stop this tactic.

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Risks to Expedia

If Hyatt wins this battle, Expedia could find itself in an avalanche with every major hotel company taking a similar approach. Could we actually be headed toward a 10% commission environment with the OTAs? Here's hoping…

Suggested Strategies

- Meet with your property team to understand historic/current reliance on OTAs and potential impact, at least in the near term. It is important that this not become an "excuse" for the next several months, but rather, an opportunity to shift business.
- This will be a good measure by which to evaluate your revenue management team, both at property and regional support level. The team should be ready with strategies for shifting and mitigating short-term impact. It is not enough to simply trust that corporate spending and strategies will be a one-for-one shift of OTA to direct book room nights. The property team should be actively developing initiatives and revenue strategies to offset impact.
- Actively engage with Hyatt regional and corporate sales and marketing to stay abreast of specific initiatives and activities that impact your region and hotel. Ask for regular updates on progress and statistics… "is it working?"
- Track and quantify business interruption for the balance of the year.
- Monitor segmentation and pricing to evaluate strategies and assess short- and long-term impact on revenue and profitability.
- Monitor increased marketing costs against revenues and commissions to calculate return and relative success of the program.
- Evaluate short-term occupancy loss against Hyatt room redemptions to assess whether the move to eliminate Expedia may have impacted the ability to hit necessary thresholds for collecting higher Hyatt redemption rates. If a negative impact occurs, take your case to Hyatt senior management and request an offset.

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- Communicate with your property team regularly, and offer support through tracking, measuring impact, and communicating back to Hyatt corporate the experience and financial impact specific to your hotel(s).

Conclusion

This year is proving to be the year in which ‘brands take a stand’ against a variety of intermediaries, employing new tactics – from Book Direct campaigns to extended cancellation policies – all in an attempt to regain some control over inventory, bookings, guest loyalty and acquisition cost. As asset managers, we are advocates of any and all strategies that support improved flow through of top line revenue to bottom line profits, and reducing commissions is certainly high on the list. We remain cautiously optimistic that the long-term results of Hyatt’s move will be positive.

In the meantime, however, it is ownership that bears most of the risk while new brand initiatives and innovations are rolled out. It is important that owners/their asset managers are proactively engaging with the property team and brand to mitigate short-term business disruption and insure the right strategies are in place to achieve long-term investment objectives.