

New study from Kalibri Labs shows direct bookings push is working

by *Elliott Mest* | Oct 26, 2017 9:00am



Hotels have been trying to guide guests to Brand.com... and it's working

A new study from **Kalibri Labs** shows that the collective effort of hotel companies to sway people to book direct is working. The study, "Book Direct Campaigns: The Cost & Benefits of Loyalty," was conducted between May and December 2016, and authored by Cindy Estis Green, CEO and co-founder of Kalibri Labs, alongside Mark Mazzocco, VP of revenue strategy at Kalibri Labs.

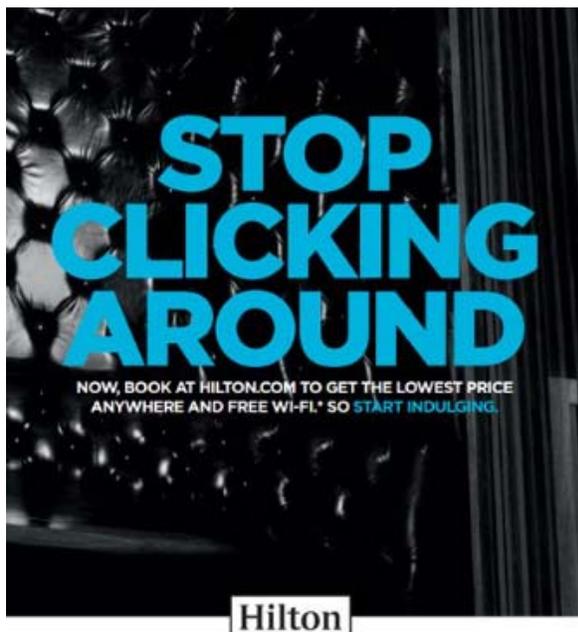
What Estis Green's team at Kalibri found was at odds with many of the anecdotal reports they were reading about in the marketplace. The study, which consisted of 12,000 hotels, noted healthy roomnight and revenue growth from May through December 2016, with roomnights up 7.8 percent and a net revenue growth of 9.3 percent. Loyalty member rates through the direct bookings push

yielded net average daily rates 8.6 percent greater than those booked through online travel agency channels, despite offering discounts to attract guests. In addition, the growth in OTA share of roomnights in 2016 slowed considerably when compared to the year before, while brand.com roomnight share grew at a much faster pace.

"When looking at what happens when a loyalty guest books on brand.com, I expected loyalty members were searching for the lowest rate, but it turns out many were paying a premium," Estis Green said. "When someone visits brand.com, they may start out looking for a lower rate, but when they see what is on offer, such as a room with parking, an upgraded suite for a modest upcharge or a third night for 50 percent off, they may decide there is a better value there even if the rate turns out to be higher."

Because net ADR includes loyalty costs and booking fees, this metric gives a better look into gross margins and profits from bookings, something Drew Pinto, SVP of distribution strategy at [Marriott International](#), said the hospitality industry is just now growing savvy to.

"We need to factor in all costs involved before we can do an apples-to-apples comparison of booking direct and booking through OTAs," Pinto said. "Direct bookings factor in loyalty rates, member fees and more. This is important because some people and articles have claimed that loyalty rate bookings are more expensive than OTA bookings, but this analysis shows that these claims are simply not true."



Hilton's Stop Clicking Around campaign was one of the first to urge guests to book directly with hotels.

The Deeper Benefit

The biggest question facing Estis Green and her team when conducting the survey was centered on the effectiveness and staying power behind customer loyalty programs. The report found that bookings based on loyalty ranged from 40 percent to 60 percent of total bookings across the upper-midscale, upscale and upper-upscale segments in 2016, and during that period brands reported 30-percent to 40-percent growth in loyalty memberships over the previous year.

Mark Carrier, president of [B.F. Saul Hospitality](#), said that the majority of OTA bookings are still based on the merchant and commission models, meaning they provide hotels with singular bookings and present little likelihood of future returns. In addition, they provide a lower net rate than direct bookings.

Meanwhile, loyalty programs exist to turn single transactions into habitual, frequent transactions, a fact that is underscored in Kalibri Labs' report. Repeat customers generate more revenue by returning, spending more money and referring friends, which is the key to escaping OTA control.

The report found that hotels pay an average of 13 percent to 17 percent of a night's room rate to acquire guests through OTAs, compared to 3 percent to 8 percent through brand.com. So how well did the industry's direct bookings push perform at reducing direct acquisition costs? After removing all direct booking costs, including commissions, channel and transaction costs and all acquisition costs outside of sales and marketing, the brand.com channel saw a 13.2-percent revenue increase from May to December 2016, while OTAs increased 12.1 percent and global distribution systems increased 9.6 percent.

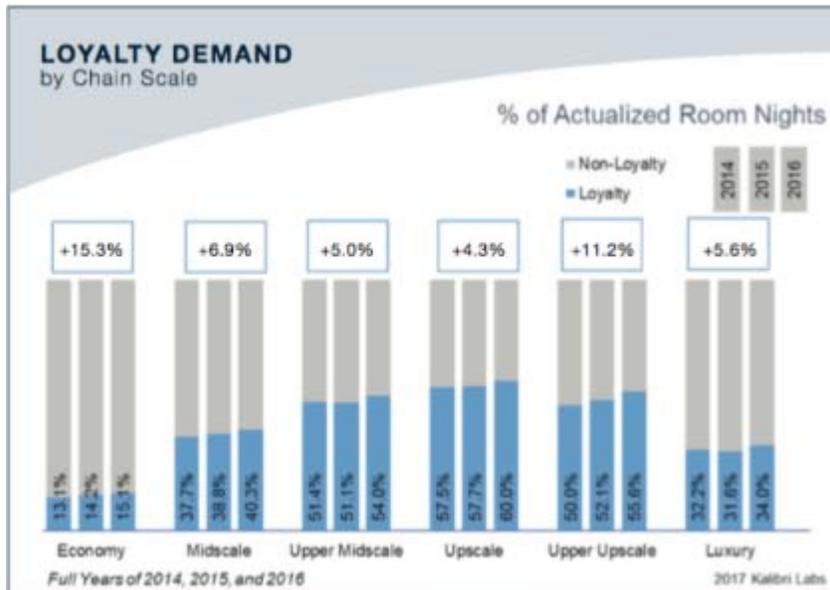
Part of the reason for this shift, Carrier said, is that hotels are able to offer more than just points through their loyalty programs. By virtue of operating their properties, hotels are able to alter the stay for loyalty members in tangible ways that third parties simply cannot.

"There are very significant benefits that are delivered to the frequency club members, and those are often worth more than points," he said. "OTAs are very smart, aggressive, focused and well financed, but hotel operators still have the physical properties."

To this point, Estis Green said that the concept of "loyalty" is evolving. She said that today's travelers are interested in the loyalty programs, but are likely signed up for more than one at a time and will be attracted to the program that benefits them the most.

"The loyalty game will be won by whoever makes the hotel experience easier for the guest," Estis Green said. "A lot of that will revolve around the digital experience, for example, brands allow guests to choose their own rooms, and travelers have to book direct to have access to that service. The large brands are not likely to let Expedia or Booking.com in on the guest experience aspect of travel,

making it more difficult for OTAs to create a seamless experience for travelers who want everything soup to nuts.”



Loyalty contribution is 40 percent to 60 percent for most hotel segments, and has risen 7 percent on average the past three years, with a jump in 2016 in growth of two to four times previous year’s growth rate.

The Cost of Loyalty

The report spends a great deal of time delving into the affect loyalty has on customer bookings because the current strategy behind the direct bookings push is not likely to be sustainable in the long term. Chad Crandell, managing director and CEO at **CHMWarnick**, said he was initially skeptical of the success the direct bookings effort could attain due to its reliance on deep discounts to attract traveler attention, and wondered if the number of bookings hotels receive as a result would surpass the cost of acquiring guests.

“The first thing you learn in college economics is that discounting as a long-term strategy to shift share is not sustainable, so our reservations came back to the economics,” Crandell said. “The idea [behind direct bookings], then, was to accomplish a number of objectives. They wanted to grab attention, and a discount will do that, much to my chagrin.”

Crandell pointed out that it was important for hospitality’s biggest hotel companies to implement direct booking campaigns all at once in order for them to be effective, which is exactly what they did. The problem, from Crandell’s position, is that appeasing loyalty guests comes with its own costs and caveats.

"It's costing more to keep people loyal, and right now hotels just offered a better value proposition," Crandell said. "There may be an issue when it comes to maintaining that loyalty, and OTAs have already responded, their messaging dominates the landscape. What can brands do next to catch the eye of the consumer? That must be on their minds."

OTAs also took a stab at reducing the impact of the hotel industry's push for direct bookings by dimming and de-ranking hotel brands in search results, punishing them for driving guests away from third parties. While this practice was short lived, hotels can expect further responses from OTAs in the future.

What's Next

While the report validated much of the hotel industry's efforts for the past 18 months, Estis Green said success of the book-direct effort—and all future campaigns to drive direct bookings—will hinge on how well hotels can cater to the guest experience. Hotel operators have a number of advantages over third parties in this area, and the report lists three:

1. Knowing consumer preferences. Loyalty programs provide a window into travelers' lives and how they prefer to travel. One of the most important factors in customer acquisition today is anticipating guest needs, something that hotels are better positioned than anyone else in the hospitality space to take advantage of.
2. Diversified portfolio of business sources. Not being dependent on one or two primary sources of business is effective economics, but it's also something that hotels have ahead start on. Consumers often view OTAs and metasearch sites as "price comparison" tools, and too much reliance on cost to differentiate hotels weakens a hotel's ability to alter its business mix.
3. Loyalty members are a boon during down cycles. Third-party vendors have been known to demand larger commissions as demand shrinks, putting operators in a tough spot when they need OTAs the most. By offering preferred member rates for loyalty members, hotels are able to keep a large member base likely to return even during down periods when forced to travel.

In closing, Estis Green said that hotels should narrow their focus and attempt to win over the guests they can, without overextending to appease guests for one-off bookings. She said there are always guests who are married to their favorite booking engine and not inclined to change, or always book on rate and nothing else, but by providing a solid guest experience and erring on the side of convenience will produce positive results for direct bookings.

"The guest experience becomes the differentiator," Estis Green said. "It sounds obvious because it has been a part of hotels for more than 50 years, but today, because we are so connected digitally, even non-frequent travelers expect that kind of convenience. Mastering that aspect of the business to become frictionless, easy or seamless, and only allowing those who book on a hotel's app or website to get that experience, that will drive direct bookings."