KPMG

Global Hotel Distribution Survey 2004

Managing pricing and performance of channels to market

Hotel distribution survey

Introduction

Distribution management continues to stir emotions within the sector. From a global perspective hotels are at varying stages of managing their direct and indirect channels to market and are adopting different strategies. Some hotels have yet to develop all available distribution channels while others are encouraging customers to book via the most cost effective channel e.g. guaranteeing best rates by booking via the hotel Web site. This can cause conflict, especially in a franchised hotel model, as general managers may contract directly with third parties and offer rooms at discounted rates to shift distressed stock.

The Internet continues to grow in importance as a core distribution channel. In 2003, 14 percent of all hotel bookings were generated from the Internet and this is predicted to grow to over 24 percent by 2006 (Source: *Lodging Intermediation — A White Paper on Shifting Online Lodging Distribution Dynamics*, CSFB, May 2003). As evidenced in this survey, the development of the Internet as a channel to market varies between regions; the large North American hotel groups have high performance Web sites with real time booking capability while some European hotels have yet to develop a Web site. We are also seeing a relative decline in other distribution channels due to the success of the Web at the forefront of online travel bookings, for example, a large UK airline recently announced that it was closing two of its five call centers in the UK as bookings via this channel fell by 34 percent (Source: *Travel Weekly*, Reed Business Information, 23 February 2004).

Hotel groups are striving to regain and retain control of their inventories and the trend of announcing best price guarantees continued in 2003 with a number of major hotel brands making yet deeper commitment to their gurantees. One hotel group promised to reduce the price of a room by 25 percent if a cheaper rate was found elsewhere. The best price guarantees also imply that hotels are confident that their internal distribution management process is being effectively managed and controlled. This survey aims to test these statements and establish whether hotels are delivering on their pricing promises or is it still worthwhile for customers to look elsewhere for the best rate?

Over the past five years, KPMG in the UK has conducted an annual survey of UK hotels to monitor the development of online bookings and pricing across the distribution channels. This year the survey has been extended to include hotels around the world including North America, Europe, Asia, South Africa and Australasia. The survey reviews hotel room rates offered to customers across the core direct and indirect distribution channels i.e. direct call to the hotel, hotel Web site, hotel central reservation, online intermediaries and corporate agents. The survey also aims to identify the key distribution trends emerging across each region and to determine the distribution strategies currently adopted.

Key survey findings

Pricing

- Booking via an online intermediary agent resulted in the cheapest price in 35 percent of cases (although this varied between regions).
- A corporate traveler in the USA is likely to obtain beneficial rates by contacting a corporate travel agent. For all other regions it is more likely that the online intermediary sites will offer the best deals.
- Some 30 percent of hotel groups surveyed offered best Web rate guarantees. Of these hotels, only 28 percent delivered on their promise.
- Hotels are not pricing inventory consistently over all distribution channels. Only two percent of cases showed consistent pricing across direct and indirect channels. Further, only 15 percent of prices were consistent for direct channels.

Channel performance

- The standard of hotel Web sites is generally superior to the online agents in terms of providing information about the hotel and local area. The process of booking via a hotel is also generally faster than booking via online agents.
- Hotel Web sites hosted in Canada and the USA achieved the highest ranking in terms of functionality and performance.
- Customers receive the most accurate information about availability by calling the hotel direct and are able to open the most productive dialogue with reservation staff either to confirm facilities or to discuss preferences.
- The service provided by Central Reservations varies depending on the brand as opposed to the region. Language can be an issue especially for non-English speaking customers.
- Hotels do not always provide consistent information relating to availability across distribution channels.

Detailed survey findings

Pricing

What is the cheapest channel to book a room?

Our global survey identified that, overall, cheaper hotel room rates were quoted by indirect channels in 60 percent of cases, i.e. online agents or corporate travel agents as opposed to use direct channels. Although the ultimate distribution goal for most hoteliers is to encourage customers to direct channels, in practice this is proving difficult to achieve as cheaper quotes are offered by third parties. Customers will therefore continue to use indirect channels until they are confident that price guarantees are being delivered.

The regional variation in channel pricing are illustrated in the following graph:

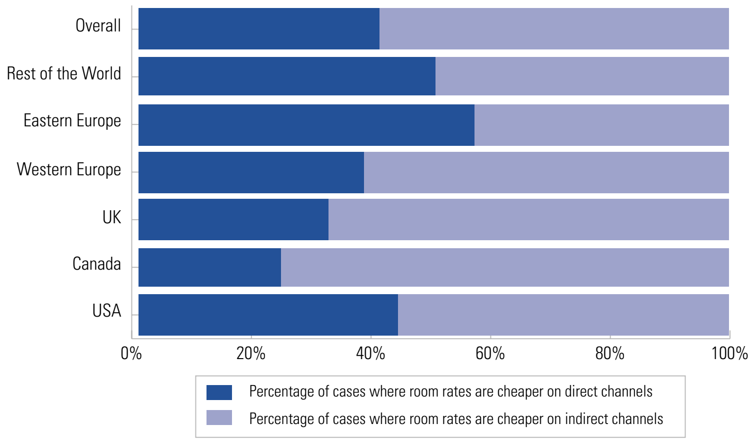


Figure I
Comparison of pricing between direct and indirect distribution channels

Source: KPMG LLP (UK)

As discussed later in the survey, one reason for some regions having a relatively high level of bookings via direct channels, e.g. Eastern Europe, is the relative lack of online travel sites or lack of sites offering a sufficient range of hotels in the location. As the online market matures, this trend is likely to reverse unless hoteliers are careful in controlling their inventory and pricing with third parties.

The survey examined the relationship between direct and indirect channels in more detail and found that; overall, the corporate traveler can find the cheapest room by searching online intermediary sites i.e. travel and specialist hotel Internet sites. In 35 percent of cases booking via an online intermediary agent resulted in the cheapest price.

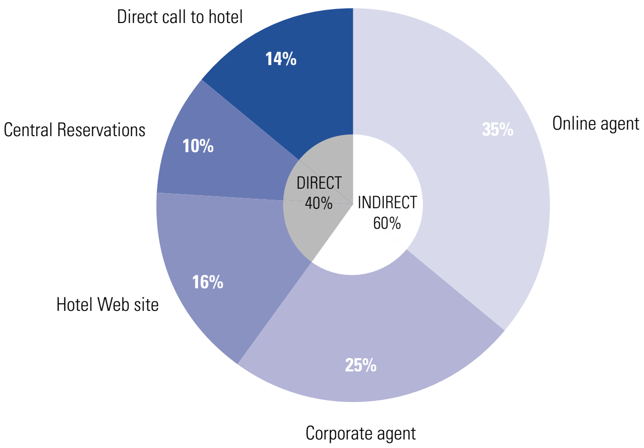


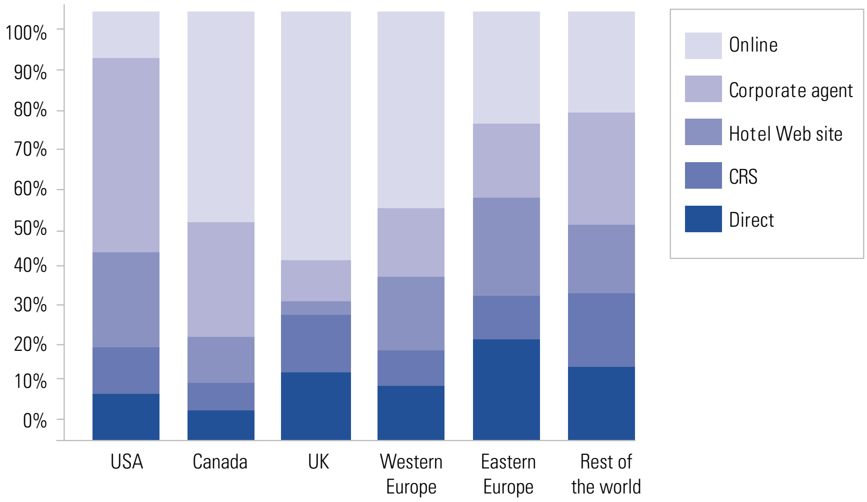
Figure II
Cheapest distribution channel for hotel room bookings

Source: KPMG LLP (UK)

Regional variations in pricing

The global traveler is faced with a dilemma when making a booking overseas as the cheapest channel varies between regions. Hotels in the UK, Western Europe or Canada face competition from a large selection of third party travel sites such as Expedia, Travelocity and late deal sites such as Lastminute.com. In the USA, there are also a high number of discounted travel sites, however, hoteliers are tending to release discounted room rates to corporate travel agents as opposed to online agents.

Figure III
Cheapest distribution channel for hotel room booking per region

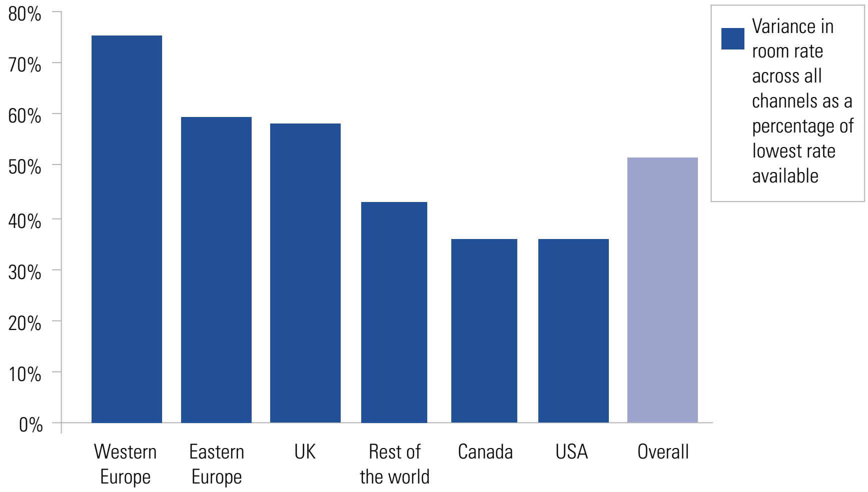


Source: KPMG LLP (UK)

The survey findings contradict the best Web rate guarantees published by hoteliers. Approximately 30 percent of hotel groups surveyed advertised best Web rate guarantees on their Web sites. Of these hotels, only 28 percent delivered on their best rate promises.

The differences in pricing can be considerable between channels. On average Western Europe displayed the largest price differences. The USA and Canada displayed the smallest price differentials between channels as indicated in the graph below:

Figure IV
Room rate variance across all distribution channels



Source: KPMG LLP (UK)

This finding suggests that the USA and Canada, with more maturity in online pricing experience, have greater control over pricing inventory across both direct and indirect channels.

Pricing consistency over distribution channels

Room rates were consistently priced across all direct and indirect channels in only two percent of cases. There is evidence that hotel room rates are beginning to be managed more consistently across direct channels and prices were consistent in 15 percent of cases. This again varied across regions. Hoteliers in the USA are best at managing prices across direct distribution channels although they still have some way to go. Some regions provided little evidence that prices were managed effectively, as demonstrated in the graph below:

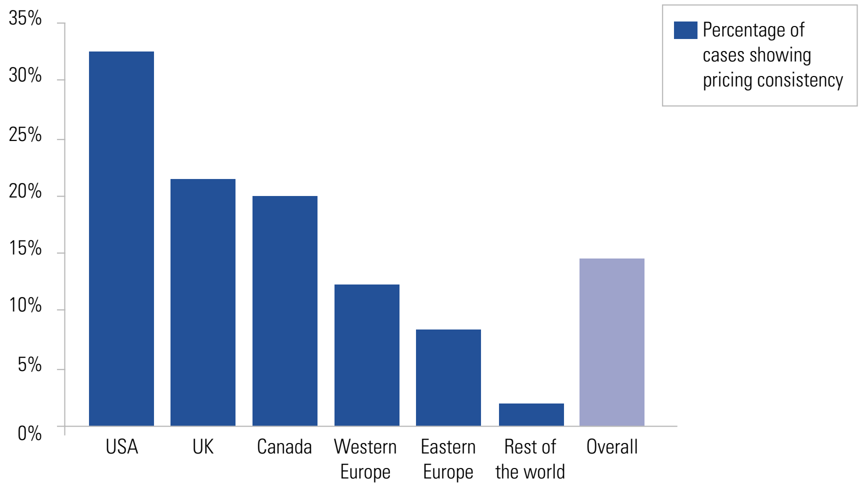


Figure V
Price consistency across direct distribution channels

Source: KPMG LLP (UK)

Our survey found that Marriott and Fairmont displayed the greatest consistency among the major brands with 63 percent and 60 percent respectively of transactions consistently priced across direct channels. These two brands set the benchmark while the average performance lagged far behind.

Channel performance

Performance of direct distribution channels

The relative performance of distribution channels contributes to the corporate traveler’s booking method. The key factors that impact the experience of a customer include:

- time to complete booking;
- information available about the hotel such as hotel facilities, room and price options;
- personal and professional service at customer contact point;
- ability to complete the transaction with minimal problems; and
- consistency of information across channels.

Each channel has its own relative merits in terms of service, timing and fulfilment. One common frustration faced by customers is inconsistent information relating to availability, e.g. a hotel Web site reported they were fully booked when a room was available upon calling the hotel. Clearly, unless single-image inventory is provided there will be continuing discrepancies in allocated availability.

The key features and relative merits of booking via the various distribution channels are summarized in the following sections.

Hotel Web sites

Generally, hotel Web sites provide good information about the hotel and facilities are easy to understand, clear and well structured. The larger, higher quality hotel brands generally offer superior sites in terms of functionality and performance. There are regional differences with the USA and Canada leading the way in terms of functionality and performance. Conversely, some European hotel groups have yet to develop a hotel Web site.

Table I
Performance of hotel Web sites

Positive features	Frustrating features
▪ Functionality and performance of international hotel Web sites, e.g. superior site design, fast, customizable. ▪ Real time online transaction fulfilment. ▪ Availability of information e.g. route map, destination information, virtual hotel room tours and currency converters. ▪ Incentivizing customers to use the channel by publishing discounted Internet only rates and price guarantees. ▪ Availability of channel i.e. 24 hours a day, seven days a week.	▪ Hotels not delivering on best Web rate guarantees with discount Web sites offering lower prices. ▪ Some smaller brands do not offer real time online reservation capability; a reservation can only be made by e-mail, completing a Web form or calling the hotel. ▪ Differences between room options are not always clearly displayed and lack of information around taxes and what the rate includes e.g. breakfast. ▪ System down or slow processing times. Also, international Web sites may cause delay due to re-routing. ▪ Sending credit card information prior to confirming availability and rates. ▪ Rates only quoted in US Dollars (particularly relating to US hotels located overseas).

The survey highlighted a marked difference in the performance and functionality of Web sites hosted in different regions. We completed a high level review of Web sites based on the following criteria:

- **Navigation:** Listing priority of hotels in search engines, search function, site map, language options and ease of use.
- **Content:** Hotel directory, hotel facilities, destination guide, route map, ability to book real time, various room/price options, e-mail updates, links to ‘associated’ brands and other content.
- **Technical functionality:** System availability, speed of download and ability to locate information.
- **Customer relationship:** Collection of information from visitor, logging preferences and site adaptations to visitor.

The graph below illustrates the overall score achieved based on these four criteria. Overall Canadian and US hotel Web sites performed well.

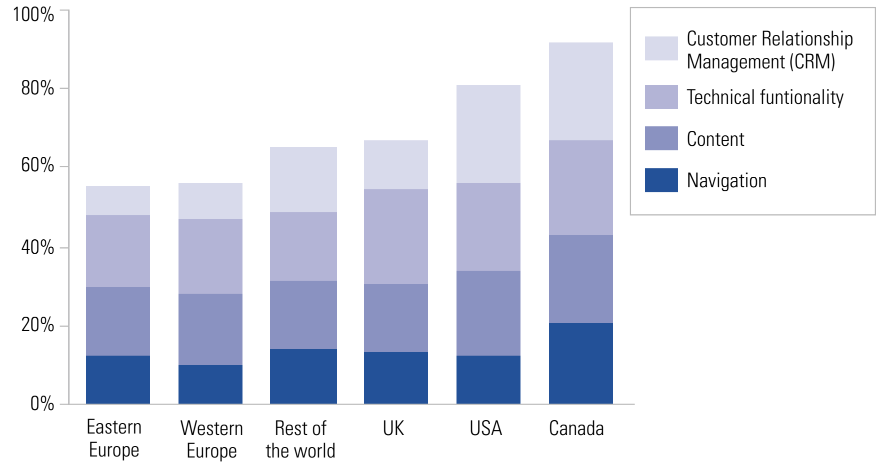


Figure VI
Performance and functionality of hotel Web sites

Source: KPMG LLP (UK)

Calling the hotel direct

Overall, the most efficient channel in terms of time taken to complete a booking is calling the hotel direct. The call times varied significantly between regions and Western Europe had the shortest call times as illustrated in the graph below:

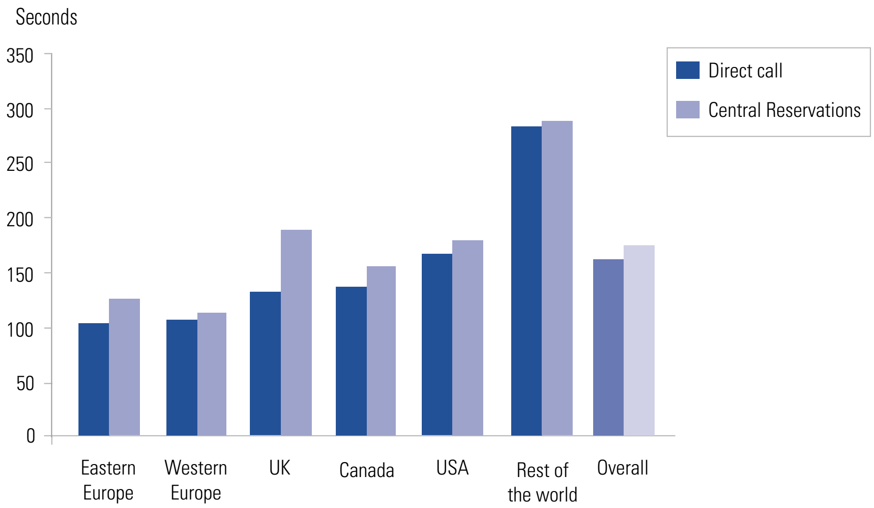


Figure VII
Comparison of call completion times between direct call to hotel and Central Reservations

Source: KPMG LLP (UK)

Generally by calling the hotel direct, the customer receives an accurate picture of availability and is able to get detailed information about the hotel and its facilities. The reservation agent is more knowledgeable and proactive and can therefore negotiate other options for the customer's stay at the hotel. One regional difference is the high level of automation when calling the hotel, e.g. Canada.

Table II
Features of calling the hotel direct

Positive features	Frustrating features
Very helpful friendly service. Knowledgeable about the product. Not a "sales aggressive" approach. Fast transaction completion. Able to offer alternatives immediately.	Not being automatically transferred to the Central Reservation if the reservations desk is closed or engaged. Time to reach the reservations agent e.g. put on hold. Restricted opening times of the reservation desk.

Central Reservations (CRS)

The service provided by Central Reservations varies depending on the brand as opposed to the region. We identified some issues relating to language, e.g. European customers being required to conduct their inquiry in English. The level of automation and availability varies considerably globally.

Table III
Features of calling Central Reservations

Positive features	Frustrating features
Availability. Friendly, fast service. Offer alternatives if first option is not available. Generally, knowledgeable about the product.	Agents generally not from country of call e.g. European countries indicated that had to speak English when calling the CRS. Slow in retrieving information e.g. agent put call on hold to call the hotel to obtain information. System problems — advised to check hotel Web site or to call back later. Incorrect CRS telephone numbers on Web site.

Performance of online agent sites

Overall the standard of hotel Web sites is superior to the online agents in terms of providing information about the hotel and local area. The process of booking via a hotel is also generally faster than booking via online agents.

The survey highlighted regional differences between the third party agents e.g. some countries have a limited selection of online travel sites or the sites offered a limited choice of hotels for the destination.

Table IV
Performance of online agents sites

Positive features	Frustrating features
User-friendly sites. Agents guaranteed lowest prices. Currency converter generally available when rates not quoted in local currency. Ability to book other travel options e.g. flight, car hire etc.	The selection of hotels is limited and only few Web sites offer a comprehensive selection. Limited availability to hotels listed. Lack of basic information e.g. what is included in the room, visual display of hotel, location maps, etc. Limited search fields — finding the right hotel can be a complicated and long process. International sites often contain out-of-date information and spelling mistakes in the addresses. Local Web sites tend to have more detailed, accurate information. Diversions and re-routing to other Web sites to obtain rates. Difficult to amend or cancel reservation.

Regional trends in distribution

Our survey highlighted a number of regional trends relating to pricing consistency and performance of distribution channels. Selections of unique regional findings along with the common trends are provided in these tables.

USA

Table V
Pricing and performance trends — USA

Pricing	Performance
Corporate agents offered the cheapest prices in 45 percent of cases. Prices were consistent across direct channels in 33 percent of cases and mainly evidenced in the large US hotel chains. Other properties varied prices more often within their own channels of distribution. Some online agents offered cheaper prices than hotels even though hotels advertised best Web rate guarantees.	The hotel Web site hosted in the USA scored very highly in terms of functionally and performance and achieved a score of 81 percent. 100 percent of hotel sites offered real time booking and cancellation. The other direct channels performance was average i.e. call completion time for direct call to a hotel and CRS.

Canada

Table VI
Pricing and performance trends — Canada

Pricing	Performance
Online agents offered the cheapest prices in 49 percent of cases. Although most of the rates quoted over the phone were the same, calling the hotel direct yielded cheaper rates than contacting central reservations. Hotel Web sites provided cheaper prices overall in comparison to calling direct or CRS. Hotels did not deliver on lowest price guarantees on hotel Web sites with discount Web sites offering lower prices.	95 percent of hotels surveyed allowed real time booking and cancellation online. Not all hotels were available via the travel agents. Lack of consistency with regard to availability e.g. hotels stated rooms were sold out over the phone but rooms were available on their hotel Web sites. 88 percent of the online agent sites did not offer a directory of hotels.

UK

Table VII
Pricing and performance trends — UK

Pricing	Performance
Online agents offered the cheapest prices in 58 percent of cases. Prices were consistent across direct channels in 21 percent of cases. Prices were the cheapest via direct channels in only 32 percent of cases with the cheapest direct channel being direct call to the hotel. 25 percent of hotel Web sites offered cheapest rate guarantees.	The performance of direct call was superior to the CRS in terms of call completion time and the service provided. Although hotel Web sites scored highly on content and technical functionality, the CRM aspects were lacking e.g. site adapts when a customer logs on to a site. 86 percent of hotels surveyed allowed real time booking and cancellation online.

Western Europe

Table VIII
Pricing and performance trends — Western Europe

Pricing

- Cheapest prices did vary between countries but, in all cases, online agents offered the best deals (46 percent of cases).
- Prices quoted by calling the hotel direct and calling the CRS were generally consistent. There is a big difference in hotel Web site price and hotel telephone price — the cheapest channel is the hotel Web site.
- Low evidence of consistent pricing across distribution channels.
- 32 percent of hotel Web sites offered cheapest rate guarantees — these statements are particularly popular in the Netherlands and France.

Performance

- The hotel Web sites' functionality and performance achieved a relatively low score of 57 percent.
- Some of the international brands had a CRS, which were not available, and the caller was requested to call during American business hours.
- When calling the CRS, various pieces of information had to be repeated and there were difficulties with understanding.
- Not all hotels had a Web site (Spain).
- Online agents sites are not as user friendly compared to hotel Web sites. Finding the right hotel is more complicated resulting in a longer transaction time.
- Not all hotels are listed on agents sites (Italy).

Eastern Europe

Table IX
Pricing and performance trends — Eastern Europe

Pricing

- Prices were cheaper via direct channels as opposed to indirect channels in 57 percent of cases.
- No clear trend emerged relating to pricing strategies across channels. However, online agents offered the best prices in 26 percent of cases e.g. "last minute" type of packages and offers.
- Prices were consistent across direct channels in only eight percent of cases.
- 29 percent of hotel Web site offered cheapest rate guarantees.

Performance

- Functionality and design on the large brands is superior to the smaller or regional brands.
- Smaller brands don't offer end-to-end reservations: an e-mail or Web form had to be completed to check rates/availability.
- 12 percent of hotels sampled did not have a hotel Web site (Czech Republic).
- The American owned hotels priced only in US Dollars.
- Lack of local online agent sites e.g. difficult to book online for the large five-star hotels (Hungary).
- The international online agent Web sites sometimes contain out-of-date and inaccurate information.

Rest of the world

Table X
Pricing and performance trends — rest of the world

Pricing

- Apart from Singapore, no clear trend emerged relating to pricing strategies across channels. Online agents in Singapore offered the cheapest prices in 45 percent of cases.
- Only 14 percent of hotel Web sites offered best rate guarantees.
- Only two percent of prices were consistent across all direct channels.
- Australia achieved the highest percentage of cases where prices were cheaper via direct channels as opposed to indirect channels (68 percent of cases).
- Direct call and CRS generally quoted consistent prices. The hotel Web site tended to be more expensive than direct call or CRS (Australia, South Africa).

Performance

- The selection of hotels available on agent Web sites is limited.
- Calls made to the hotel or CRS had, by far, the highest call completion time compared to other regions.
- On several occasions the hotel Web site reported they were fully booked when a room was available upon calling either directly or CRS.
- Virtual hotel room tours have become a common feature on the Web sites along with currency converters.
- There are a limited number of online travel agents available to choose from (South Africa).
- The large hotel brand sites have more information provided and more value added services (Singapore).

Conclusion

The global distribution survey findings show that individual countries and hotel brands are at various stages of developing and implementing channel management strategies. The more mature distribution strategies encourage customers to book via the direct Internet route. Other regions are just starting to recognize the importance of the Internet as a channel to market, e.g. some hotels still do not have a hotel Web site.

KPMG in the UK has monitored trends in online distribution over the last five years and based on previous hotel surveys, there appears to be a number of clear stages that occur as outlined below:

- **New channel to market** — emergence of the Internet distribution channel.
- **Quick response, short-term fix** — developing own Web presence such as hotel Web site to provide information only.
- **Transactional Web site** — initial e-mail inquiry capability developing over a period to allow real time booking.
- **Affiliations with third parties** — contracting with online intermediaries (commission basis or net wholesale model).
- **Review of third party contracts** — hotels react to the loss of control over rates and inventory and review the inventory made available to online intermediaries.
- **Development and continual refinement of a distribution strategy** — establishing the best balance of direct to indirect bookings to adapt to increasing market segmentation. Incentivizing customers to book via the most cost effective channel.

The survey has highlighted these differences between regions. The graph below maps the relative maturity of online distribution for each region based on control over pricing of distribution channels.

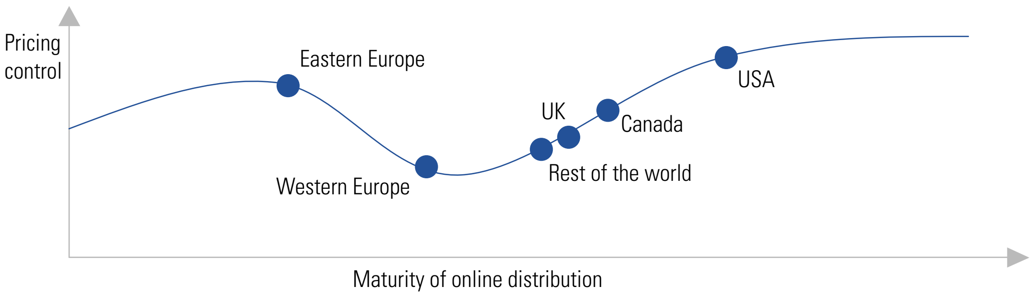


Figure VIII
Pricing control and maturity of distribution channels

Source: KPMG LLP (UK)

Hotel groups still have some way to go to demonstrate that their distribution channels are effectively controlled and managed. In the short term, hotel groups will continue to refine their distribution strategies to try to ensure that best rate promises are delivered to the customer. In the longer term, there are other challenges facing hotels which may have an impact on distribution including developing technology to allow single-image view of inventory. An improving economic climate may also affect distribution strategies as hoteliers regain confidence in selling rooms through their direct channels.

Online intermediaries face challenging times as hotels take more control over their inventory and rates. However, hotel groups recognize the importance of indirect channels and are becoming more selective with the agents they are doing business with e.g. Marriott's recent agreement with Expedia.com and Hotels.com to make rooms available for hotel and vacation packages. We also expect to see more of these partnership arrangements between hotels and online travel agents, which will be to their mutual benefit.

As evidenced in this survey, hotels in the USA and Canada are leading the way in distribution management. It will be interesting to see if the rest of the world will close the gap.

Methodology

The survey was conducted with over 319 hotels across 13 countries worldwide between the period of December 2003 and January 2004 using KPMG's international member firms.

A room rate inquiry was made with a two-day booking lead time for a mid-week night (e.g. inquiry made on a Tuesday for a booking on a Thursday). The price of a single standard room was sought via:

- calling the hotel direct;
- calling the central reservation office;
- hotel Web site;
- corporate travel agencies; and
- Web sites of online intermediaries.

The sample of hotel and intermediary Web sites were also assessed with regard to their navigation standards, content, technical functionality, revenue earning potential and customer relationship management. A set of pre-determined criteria were used, against which all Web sites were assessed.

The survey was undertaken from the viewpoint of an independent corporate traveler and all evidence and analysis pertains to a front-end Web site assessment.

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