European Hotels: Managing Hospitality Distribution

Preview

Applied Travel Intelligence

Published by PhoCusWright Inc.

European Hotels: Managing Hospitality Distribution

Preview

Written by
Bill Carroll and Peter O'Connor

Edited by
Lorraine Sileo

PhoCusWright Inc.
1 Route 37 East, Suite 200
Sherman, CT 06784-1430
USA
+1 860 350-4084
+1 860 354-3112 fax
www.phocuswright.com

Applied Travel Intelligence

European Hotels: Managing Hospitality Distribution

Preview

Introduction

The increasing use of the Internet for researching and buying hotel rooms in Europe is revolutionizing the way hoteliers distribute their services. While the major European chains are actively helping their properties manuever and capitalize on the Internet, the vast majority of independent properties and small chains are coping with, and trying to understand the impact of, a bewildering array of distribution options.

As a result, the hospitality distribution landscape will change. The larger chains will drive more bookings through direct online branded channels. Properties in locations previously served by tour wholesalers with pre-packaged programs will generate more bookings through dynamic packages assembled by consumers themselves. This will require new ways of managing inventory and price. Properties will also be challenged to decide with whom to align and at what price, in terms of brand and distribution expense. Online intermediaries will step up the pressure on small chains to partner with them to open up non-local markets. These intermediaries will become “the brand” beyond the regional market.

This preview assesses the objectives, strategies and key alliances of the primary players in this rapidly changing European marketplace. A forthcoming PhoCusWright report, *European Hotels: Managing Hospitality Distribution*, will provide more detailed forecasts, predictions and recommendations for hoteliers looking to successfully navigate these waters. The report’s goal is to explain and predict future trends in European hospitality distribution and to suggest key considerations for independent properties and small chains. This preview sets the groundwork for that comprehensive report.

Methodology

PhoCusWright interviewed executives from major international and European hotel chains, online travel agencies, travel technology companies, destination management companies and global distribution systems (GDSs). Over 40 interviews were conducted in fall 2004 and winter 2004/2005. PhoCusWright also studied trends and data from public documents as well as other PhoCusWright research reports, including *From Property to Screen: Managing Online Hotel & Lodging Distribution*, which focuses on the U.S. market.

Key Findings

- The Internet is increasingly being used for researching and buying travel in Europe. PhoCusWright estimates that currently one in 10 hotel bookings for larger properties are made online, with these major chains also reporting the highest year-over-year growth of 60–70%. Some small regional chains and independent properties that have successfully embraced the Internet are seeing 15% of their bookings coming from online channels. Due to the high proportion of properties in Europe that are small, local and independent (and not actively online), PhoCusWright estimates that in 2004, 6% of European hotel bookings were made online.

- U.S.-based intermediaries' share of online travel bookings has eclipsed their European counterparts, with Expedia, Sabre (via Travelocity Europe and its recent acquisition lastminute.com); and Cendant (via ebookers) holding a combined share of nearly 60% of the European online travel agency market.

- Leading online travel agencies view hotels as the prime target for bookings and net revenue (contribution) growth, thanks to the successful U.S. experience with the merchant model, the relatively high percentage of net income generated from hotel bookings and the fragmented European hospitality market.

- GDSs are increasing their share of online hotel bookings by acquiring distribution and channel management solution providers and targeting their service set to small chains and independents. Examples include the Amadeus acquisitions of Optims and majority stake in Opodo, and Sabre's purchase of SynXis.

- Pan-European chains have taken an aggressive stand against online intermediaries by growing direct, brand-based bookings and establishing the conditions under which they will supply merchant inventory. All chains interviewed by PhoCusWright have developed detailed strategies to drive more online business to their branded Web sites; for example, InterContinental Hotels Group (IHG) has pulled inventory from Expedia to increase direct sales.

- Dynamic packaging, whereby the consumer combines individual travel components online to create a customized package, is quickly replacing both online and offline purchases of traditional vacation packages. The flexibility, ease and appeal of creating customized, flexible vacations are challenging major tour operators to change the way they do business or risk becoming obsolete.

- Priceline has increased the availability of opaque inventory options for hotels in the European market through its 2004 acquisition of Active Hotels, a hotel reservations provider. Active Hotels currently serves the distribution needs of 6,000 mostly independent European properties.

- Europe's highly fragmented and primarily local hotel market has attracted U.S.-based distribution management solution providers such as Pegasus and TravelCLICK/iHotelier. These companies see growth opportunities in supplanting chains and traditional representation companies' services with middleware and distribution products that meet the needs of independent properties and small chains on an á la carte service and fee basis.

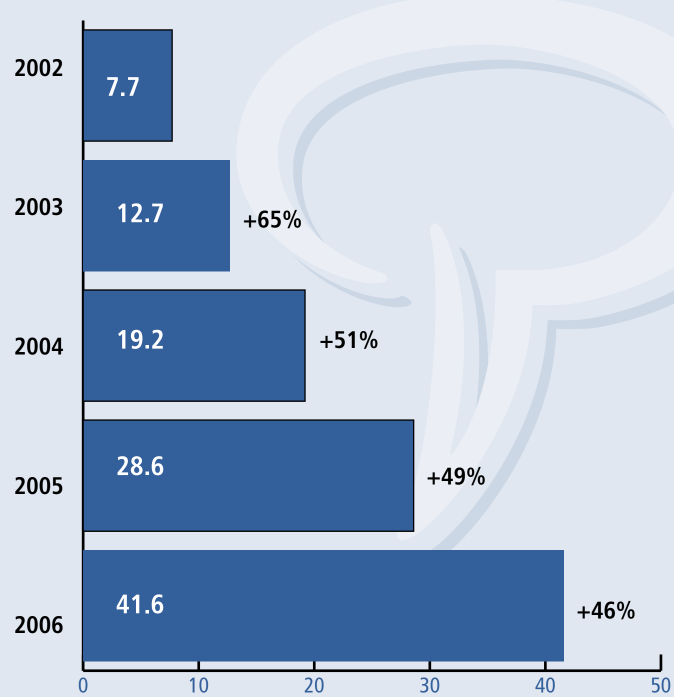
Europe Primed for Online Travel Growth

The European online travel market is still largely driven by airline sales due to several factors, including:

- The continued growth of low-cost carriers that rely on the Internet as their primary distribution channel. For example, U.K. carriers Ryanair and easyJet claim that over 95% of bookings are generated online. These carriers frequently offer hotel rooms on their Web sites in virtual partnerships with third party companies that have their origins in the tour operator segment.
- Actions by the national carriers to achieve similar levels of cost savings by shifting some of their distribution online.
- A lack of suitable hotel inventory in locations outside major cities, which is clearly limiting online hotel sales.

Table 1

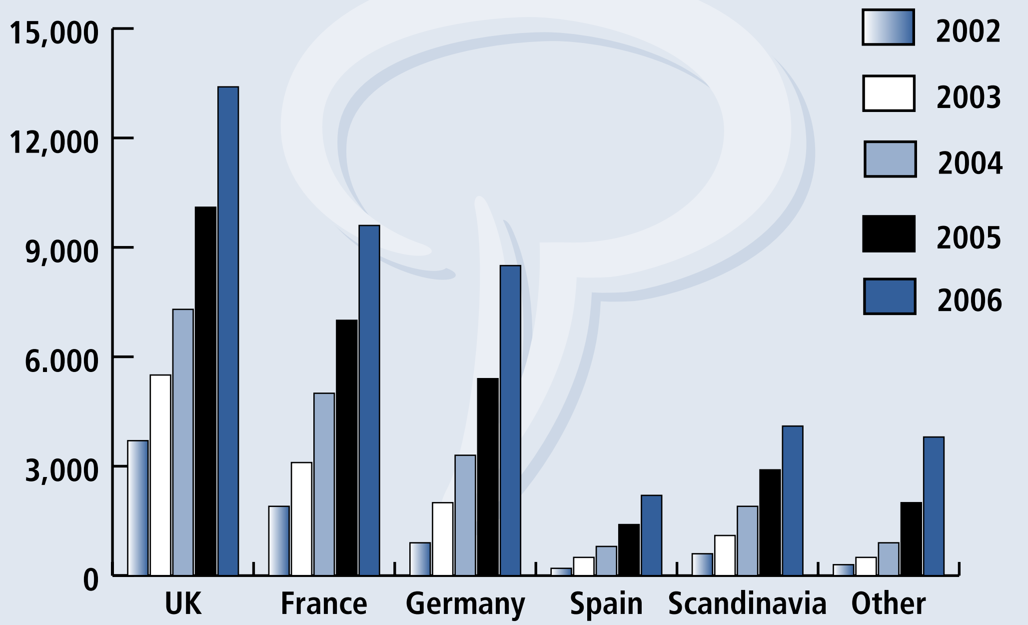
European Online Travel Market (Leisure, Unmanaged Business) 2002-2006 (€M)



Note: 2005-2006 figures are projections
Source: PhoCusWright Inc.

Table 2

European Online Travel Market
(Leisure, Unmanaged Business) by Region 2002-2006 (€M)



Note: 2005-2006 figures are projections
Source: PhoCusWright Inc.

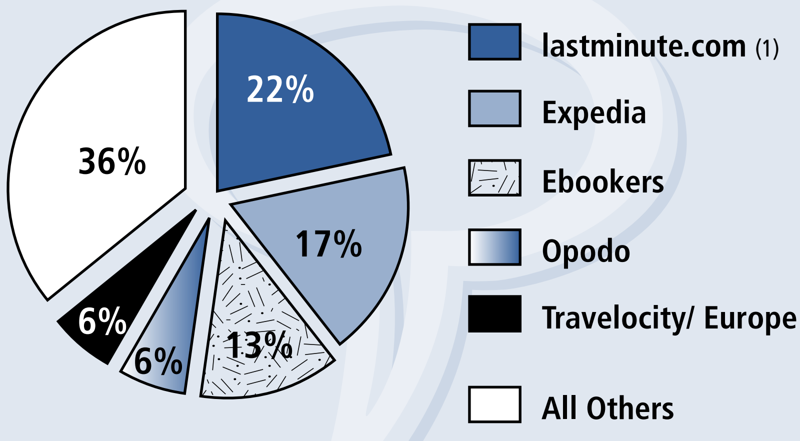
However, online hotel sales are developing rapidly in Europe, especially in the Western countries and among the larger chains. The U.K., Germany and France lead in terms of online hotel sales, although Scandinavia, Spain, Italy, The Netherlands and the Benelux countries are not far behind. New European Union countries such as Estonia, Latvia, Lithuania and the Czech Republic lag considerably. These trends are illustrated in PhoCusWright's forecast of online travel distribution among European countries through 2006 (see Tables 1 and 2).

The hotel inventory available online is primarily provided by the major international chains, such as Accor, Best Western, IHG, Hilton International, Sol Meliá and Marriott International. Properties located in large cities, including London, Paris, Rome, Barcelona, Brussels, Amsterdam, Venice, Lisbon, Madrid, Berlin and Dublin, account for the most hotel rooms sold online. But the European hotel market is largely represented by small, independent properties, which are unlikely to have effective, transactional Web sites of their own. As a result, online hotel sales, representing an estimated 6% of total European hotel revenues, significantly under-represent market potential.

In the future, the mix of European hotel properties available online will change. To meet consumer needs, online intermediar-

Table 3

Leading Online Travel Agency Market Share, Europe, 2004



(1) Travel products only
Source: PhoCusWright Inc.

ies will continue to expand their efforts outside primary and secondary cities. Currently, the U.S.-owned online travel agencies Expedia, Travelocity and ebookers hold a combined 36% share of the European online travel agency market (see Table 3). Sabre's lasminute.com acquisition will boost that number closer to 60%.

In some situations, as has been the case with Priceline, intermediaries will use acquisitions to quickly gain online hotel inventory, resulting in wider distribution and more sales. Mergers and acquisitions of traditional tour operators are also likely to accelerate as online intermediaries strive to get better access to leisure-oriented hotel-room stock.

Online hotel sales in the European market will also be impacted by the following:

- Increased use of dynamic packaging by both online travel agencies and suppliers as a substitute for pre-packaged offerings, giving consumers greater control over trip options, including hotel choice.

- Leadership by European chains to manage online distribution in an effort to avoid the adverse net revenue effects of online merchant programs experienced in the U.S. According to PhoCusWright estimates, less than 20% of European chain online bookings are generated by online travel agencies, with an even smaller percentage as merchant bookings.

- Mergers, acquisitions and organic growth among an increasingly smaller set of pan-European online agencies, which are gaining increased market power and recognizing that hotel bookings represent a significant contribution to profit margins.

- Growth of small, regionally focused intermediaries, such as the U.K.'s LondonTown and Germany's HRS, which represent an important contribution to online sales for hotels within their catchment region. However, the presence of so many smaller operators will make reservations management very complex, in terms of choosing a portfolio of online intermediaries.

- Fragmentation of the European hotel market, with branded properties representing less than 20% of the market.

- Stronger, more powerful regional chains, whose financial and organizational structure will give them the incentive and capacity to effectively negotiate more favorable relationships with merchant-based online intermediaries.

- Language and localization issues that limit the growth of European online travel. This will increase the importance of visual media content, reduce the richness of textual content and further concentrate market share among distribution intermediaries, including major chains, which have the financial resources to make investments in geographically broad and culturally relevant content.

U.S. Players Target Europe

As a result of the market's future potential, the leading U.S.-based online travel agencies are already targeting Europe as a major source of growth and net revenue. The European online travel market – particularly hotel inventory – is untapped compared to the U.S., providing outstanding expansion opportunities. In fact, less than 30% of three-star hotel rooms are associated with major international chains. This inventory is underrepresented and, for the most part, not available online. Therefore, the potential to provide distribution services and produce high merchant margins is significant.

Expedia (known as IAC Travel until its recent spin off from IAC), Sabre and Cendant are the most active U.S.-based players in Europe. Over the past three years, each company has been on an acquisition and expansion binge that is likely to continue (see Table 4). Sabre is in the process of acquiring lastminute.com, the last major independent online travel agency in Europe, and its online travel agency Travelocity recently re-energized its earlier European expansion efforts. In 2004 Travelocity purchased the remaining share it did not already own in the non-German assets of its Travelocity Europe joint venture with German retailer Otto Group. It also bought the French tour operator Boomerang, and launched its first consumer-direct online presence in France under the name Odysia. Expedia bought Anyway.com in 2003, and in 2004 added two corporate travel companies, France's Egencia and the U.K.'s World Travel Management. Cendant, meanwhile, picked up ebookers in December 2004 and, two weeks later, Gullivers Travel Associates, instantly upgrading its European position.

In addition, Priceline increased its presence in Europe through the acquisition of Active Hotels. Most of Active Hotels'

Table 4
Selected European Online Travel Acquisitions, 2003-2005

Company/Year		Acquired	Country
Amadeus			
	2004-2005	Opodo (74%)	Europe
	2005	Eviaggi (via Opodo)	Italy
	2005	Quest Travel (via Opodo)	U.K.
	2005	Karavel (via Opodo)	France
	2005	Travellink (via Opodo)	Sweden
	2005	Optims	Europe/Asia
Cendant			
	2004	ebookers	Europe
	2005	Gullivers Travel Associates	Europe/Asia
CNG Travel Group			
	2004	PlacesToStay.com	Europe
IAC			
	2003	Anyway.com	France
	2003	Interval International	U.S. /Int'l
	2004	Egencia	France
	2004	World Travel Management	U.K.
lastminute.com			
	2003	Holiday Autos	U.K.
	2003	Med Hotels	U.K.
	2003	lastminute.com Spain	Spain
	2004	Gemstone	U.K.
	2004	First Option	U.K.
	2004	Online Travel Corporation	U.K.
	2004	lastminute.de	Germany
Priceline			
	2004	Active Hotels	Europe
Sabre			
	2004	Travelchannel.de (via Travelocity)	Germany
	2004	Flug.de (via Travelocity)	Germany
	2004	Boomerang (via Travelocity)	France
	2004	Travelocity Europe (non-German assets)	Europe
	2005	lastminute.com (expected to close 7/05)	Europe
TUI			
	2004	Ferien.de	Germany

Source: PhoCusWright Inc.

properties are in the U.K. (40%) and France (25%).

Most European companies, including Accor, Hilton International and IHG, as well as smaller regional chains like Sol Meliá, Thistle, Jurys Doyles and Rezidor SAS, have reacted quickly to the challenges from U.S.-based intermediaries. Amadeus, the largest European-based GDS, and lastminute.com, the soon to be former leading independent European online travel agency, have sought to shore up market positions through acquisitions. Lastminute.com continues to struggle with profitability, a contributing factor that allowed Sabre to offer a 47% premium over its battered stock price.

PhoCusWright's interviews with leading chain executives found they are investing heavily in their branded Web sites to drive more direct bookings. These chains are working closely with their properties to better manage distribution and intermediary agreements, as well as negotiating directly at a corporate level with the online travel agencies to establish more acceptable terms and conditions, such as rate levels/rate parity, display positioning and search engine marketing practices. While IHG has taken a global public position on these distribution issues and, as a result, has pulled out of Expedia, other European chains have been more subtle in their dealings with intermediaries, choosing to work out issues privately for now.

For smaller chains and independent properties, there is an opportunity to work with intermediaries to expand their online businesses. In many cases, these companies could benefit from access to potential guests beyond their local markets, but lack the brand recognition, marketing and distribution reach to attract them. The growth in online travel and the evolution of intermediaries across Europe and North America potentially provide them with access to international guests. In effect, major online travel agencies could serve as their brands outside of their regional markets, thus driving business to these small operators.

European Intermediaries Utilize Acquisitions

Amadeus, whose airline owners recently agreed to sell controlling interest to the private equity firms Cinven Group and BC Partners, will still be partially owned by national carriers Iberia Airlines, Air France, and Lufthansa (which will collectively retain something close to their pre-transaction stake of 47%). The public-to-private transaction has cleared European regulators and a tender offer is pending.

Its European online businesses include e-Travel, a supplier of corporate travel technology products; Amadeus Germany (formerly START), Germany's leading leisure package and travel distributor; and Optims, the leading European supplier of IT services to the hospitality industry. Amadeus also has a controlling stake in Opodo, the European counterpart of U.S.-based Orbitz, which recently acquired Karavel. In February 2004, Amadeus announced plans to sell its interest in the U.S.-based online travel agency OneTravel.com to RCG Companies.

Lastminute.com, which enjoys the greatest geographic market reach among European online travel agencies, has grown both organically and through acquisitions. It has purchased major online players in most major European countries, including online portals, hotel discounters and tour operators (see Table 3). From the hotel perspective, lastminute.com offered a viable and willing substitute for U.S.-based travel intermediaries. However, its acquisition by Sabre will reduce the number of such options by one.

Established in 1995, WorldRes offers a modern technological platform to support Internet hotel reservations, as well as online distribution of hotel inventory to multiple consumer-focused travel Web sites. Initially established to serve smaller independent properties, IHG, Hilton International and Accor invested heavily in developing the company as both an alternative to the major online intermediaries and a switch technology for Web-based channels.

Despite this investment, WorldRes has struggled in Europe. In 2004, it sold its stake in PlacesToStay.com to CNG Travel Group and has seen declining bookings, layoffs and management changes. In March 2005, WorldRes assets and businesses were acquired by World Reservations International (WRI), a budget accommodations online retailer and distributor. WorldRes will retain its brand name (as a separate division under WRI) and serve the affiliate distribution market.

Tour Operators, Destination Marketers Seek Roles

The tour operator market, led by TUI, Thomas Cook, Kuoni, MyTravel and Rewe Touristik, is being directly challenged by major online intermediaries that are:

- acquiring tour operators;
- developing their own travel packages; and
- offering customers the opportunity to design their own trips using dynamic-packaging technology.

Dynamic packages are particularly advantageous to hotels that want to keep their room rates "opaque" within the total bundled package price. These types of packages also give hotels an alternative to tour operators' fixed net pricing and inventory schemes.
Several major European markets also have very active destination marketing organizations (DMOs) with an online presence. In many cases, these organizations are government sponsored to promote tourism, although the more successful DMOs have significant private sector involvement or control, such as Tiscover. Originally developed by the Tyrolean tourist board, Tiscover is now a commercial company offering both travel reservation and technology services.

DMOs are well positioned to provide representation and online booking capabilities to regional independent and small chain properties, thanks to the fragmented nature of the European hotel market. By acting as a consumer brand, DMOs can provide these properties with a less expensive way to promote and secure reservations. More importantly, DMOs can play a major role in improving hotel search engine marketing.

Conclusion

The way that Europeans shop for and purchase travel is dramatically changing. For large sections of the population, the Internet has become a convenient, inexpensive way to buy travel products. Dynamic packaging, involving more direct consumer involvement and choice, is replacing pre-packaged, tour operator programs.

The growth and evolution of the European online travel market is creating both a challenge and an opportunity for hotel properties, particularly independents and small local/regional chains, which are finding advantages in developing and using their own Web sites to produce direct bookings.

At the same time, distribution has become more complex as various intermediaries, such as U.S.-based Expedia, Cendant and Sabre, as well as European-based Amadeus and lastminute.com, connect directly to the customer.

The complexity of distribution choices and opportunities can be bewildering to independent properties and small chains. Not only do they need assistance determining what to do, but also in selecting and using systems and tools to manage distribution and optimize occupancy and ADR.

These needs are spawning the growth and development of distribution solution providers that give independent and small-chain properties access to advice and distribution management systems. International companies like Pegasus, TravelCLICK/iHotelier, Sabre's SynXis, Cendant's Trust International and Amadeus' Optims, are focusing on this market. All of these companies offer technology and service, rather than branding, and they relate their fees to the service level provided. They are also linking distribution management systems and technology to existing property management, yield management and/or decision support systems at the unit level.

On the other hand, chains provide their properties with branding, direction, assistance, technology and systems to manage distribution.

Each of these issues is significant to the future of online hotel sales in Europe. The unique characteristics and structure of the hotel sector in Europe will lead to a new generation of technology providers developed to help smaller chains and independent properties maintain their independent status, while at the same time, better manage their electronic distribution.

About the Authors

***Bill Carroll** is a Senior Lecturer at Cornell's School of Hotel Administration. He is the CEO of Marketing Economics, a private consulting company serving the travel industry in the areas of pricing, distribution, revenue management and strategic planning. Bill is also a contributing writer/analyst for PhoCusWright Inc. Bill holds a PhD in Economics from Penn State and has held senior management positions in the travel industry including Hertz where he was the Division Vice President for Global Marketing Planning with responsibility for marketing planning, pricing, revenue management, distribution and executive information systems.*

***Peter O'Connor** is co-Director and Associate Professor of Information Systems at Institute de Management Hotelier International (IMHI), an MBA program in international hospitality management administered by ESSEC Business School, Paris. His research interests focus on information technology in hospitality (particularly on electronic channels of distribution) and he has authored two textbooks: "Using Computers in Hospitality" and "Electronic Information Distribution in Hospitality and Tourism" as well as numerous articles in the trade and academic press. He is also a past winner of the prestigious Best Research Paper award at the ENTER Information Technology in Tourism conference.*

080805

PhoCusWright Inc.

1 Route 37 East, Suite 200, Sherman, CT 06784-1430 USA, + 1 860 350-4084, + 1 860 354-3112 fax
www.phocuswright.com