

The Drop Zone: Are Hotels Their Own Worst Enemy?

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When it comes to pricing, hotels might be their own worst enemy.

Many hotels are quickly discovering they've passed too much control and inventory to online travel agencies.

The fees hoteliers now pay third parties to peddle inventory to masses of bargain hunters has escalated to alarming levels that cause erosion of profit margins.

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What has caused hotels to jump onto so many third-party platforms and promotional bandwagons? The answer might be naiveté. Every third-party positions its platform as a panacea, luring hoteliers with the promise of increased business, through access to massive subscriber databases.

Online travel agencies promote their membership as a portal to a new network of people already primed to purchase a hotel room. They tell us we'll have full access to a magical source of untapped business by merely forking over a rapidly growing portion of revenues for the privilege of getting our name in front of potential customers. As soon as hoteliers hear the phrase 'potential customers,' we sign up.

"We dropped our pants to the tune of US\$5.4 billion in 2010 alone."

The question that remains is, how much of the business fuelled by third parties is truly incremental? Most hoteliers seem to take the initial promise of 'new customers' at face value and fail to answer a vital question: would those guests have found us by other means? Is that too difficult for us to research? And, how many of us simply get swept up by trends, reacting to some small nagging worry that if everyone else is doing it, it must be the right thing to do? Surely, it's that kind of thinking that's causing hotels to sign up in droves, enabling third parties to grow their share of our business to the phenomenal 40 per cent they now enjoy.

How distinctive is the audience that uses third-party agencies? Do they constitute a new market? Or is the online agency simply an alternate channel, made up of fragments of our hotel's traditional existing markets?

As hoteliers, we know our best customers are loyal because they enjoy the experience we provide. Smart operators know their competitive advantage does not rest in low rates, but rather in the service, experience and satisfaction we provide. This is what grows our business and makes us successful — happy customers who tell other potential shoppers about us either personally or through published reviews and testimonials. Word of mouth is still the best marketing tool, whether live or online, but a well-established reputation for excellence is the strongest magnet to attract

The online world is the greatest leveller of our business. Hoteliers finally understand the Internet has effectively transferred power to the consumer. They're in control, doing their own research, using the channels and platforms and services of their choice. However, if our own web presence is sharp, attractive, engaging, helpful and easily found, why would we need third-party representation?

Our behaviour to date on third-party sites has primarily served to fuel a price war. Rather than benefitting from the third-party promise of extending our reach to new customers, we've succumbed to the lure of price wars within them, for fear of being left out. Is there a place for discount platforms and deep discount sales? There is indeed, but we need to employ such tactics sparingly and judiciously to fill distressed inventory.

Ultimately we need to temper our reliance on third parties with a re-examination and re-investment in what we know feeds success. No one wins a price war except the customer. The value of third-party representation is predicated on the assumption the business it generates is incremental. Are we our own worst enemy for buying into the promise of 'potential customers' who are really just bargain hunters lurking amongst our existing customers?

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