



Phocuswright White Paper

Channel Optimization in Hospitality:

Secrets of Data-Driven Hoteliers

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In cooperation with

Sabre[®]

Written and researched by
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Phocuswright[?]

An Introduction from Sabre



Mastering distribution is a bridge to revolutionizing the guest experience

We believe that true hospitality happens when you know the unique expectations of each guest and find ways to exceed those expectations time after time. Serving over 32,000 properties around the world, Sabre Hospitality Solutions helps hoteliers deliver those distinct and dependable guest experiences.

We understand the complexities of the market and the challenges that hotel brands face. We know that hoteliers are working constantly to allocate limited resources in support of core business strategies, such as channel optimization. Hoteliers are tasked with driving more revenue, attracting as many potential customers as possible, and at the lowest possible cost of acquisition – all while ensuring a quality guest experience.

Paradigm shifts within the industry are driving these imperatives for hoteliers – and navigating them successfully starts with a solid distribution strategy. That means your hotel must not only be present in all of the channels your customers are searching, but must also stand out in an already crowded marketplace. Additionally, the guest experience starts long before a guest ever enters your hotel. You're meeting your guests across their journey, whether they're starting their dreaming process online, booking via an OTA or calling your hotel directly. Being a part of that journey lets your property or brand earn not only the booking, but also a relationship with that guest.

Partnering with hoteliers for success

Hoteliers must master distribution, and master it fast – and having a partner who deeply understands distribution can make a world of difference. At Sabre, distribution is our core, and our suite of distribution solutions are the industry's most widely used and respected. By sharing the insights identified in this report, we aim to help you master distribution – allowing you, in turn, to focus more resources on the guest experience.

At Sabre, we believe the investments that hotels make in their channel optimization and distribution strategies will define the next generation of winners in hospitality – and we are committed to being your technology partner of choice. Our goal is to power capabilities that will enable channel conversion, revenue and profitability growth for our customers.

With this report, we share insights that will help you maximize revenue through an optimized distribution strategy, no matter the size or location of your property or chain. Inside, you'll find key takeaways that will enable you to develop the best channel optimization strategy possible for your brand or property.

A handwritten signature in black ink, appearing to read 'Alex Alt', written over a light-colored background.

Alex Alt
Executive Vice President, Sabre
President, Hospitality Solutions

About Phocuswright

Phocuswright is the travel industry research authority on how travelers, suppliers and intermediaries connect. Independent, rigorous and unbiased, Phocuswright fosters smart strategic planning, tactical decision-making and organizational effectiveness.

Phocuswright delivers qualitative and quantitative research on the evolving dynamics that influence travel, tourism and hospitality distribution. Our marketplace intelligence is the industry standard for segmentation, sizing, forecasting, trends, analysis and consumer travel planning behavior. Every day around the world, senior executives, marketers, strategists and research professionals from all segments of the industry value chain use Phocuswright research for competitive advantage.

To complement its primary research in North and Latin America, Europe and Asia, Phocuswright produces several high-profile conferences in the United States, Europe and Asia Pacific, and partners with conferences in China, Singapore and the United Arab Emirates. Industry leaders and company analysts bring this intelligence to life by debating issues, sharing ideas and defining the ever-evolving reality of travel commerce.

The company is headquartered in the United States with Asia Pacific operations based in India and local analysts on five continents.

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Channel Optimization in Hospitality: Secrets of Data-Driven Hoteliers

Written and researched by Robert Cole and Lorraine Sileo

Introduction

The fragmented nature of the hospitality industry – including property owners, hotel brands and third-party management companies – has created a complex distribution landscape between hoteliers and their guests. Renting a hotel room can be deceptively complex. Interrelated layers of business relationships, technologies and communication methods reach out to an array of market segments through myriad marketing promotions. Like all businesses, the fundamental sales challenges are:

- 1) Attract as many potential customers as possible, at the
- 2) Lowest practical cost of acquisition, while
- 3) Maximizing sales conversion, and
- 4) Minimizing operational costs, to
- 5) Increase profitability, still
- 6) Ensuring a quality experience, that
- 7) Results in the greatest customer lifetime value.

Even for a property that lacks major brand affiliations, experienced management company backing, deep-pocketed investors, or sophisticated technology stacks, success is possible by understanding the needs of its target customers, how effectively they are being engaged, and measuring success.

This paper discusses the decisions hoteliers must make in the channel optimization process. It also explores consumer behavior across trips, channels and devices. How should hoteliers target travelers in their decision-making process? What digital tools and methods should be used?

Success Begins With a Solid Strategy

To compete in a crowded and rapidly changing marketplace, every hotel must intelligently allocate limited resources to support its core business strategies. Failure to optimize performance squanders resources, loses customers and dissatisfies stakeholders – a proverbial lose-lose-lose scenario.

Every hotel prepares an annual business plan, sales and marketing strategies to attract business, and an operating budget to support the property. It is critical to ensure that the

goals outlined in these three documents are tightly aligned. Marketing initiatives have little chance of success when attempting to satisfy conflicting or disjointed objectives.

Successful hotels play to their strengths. This fact transcends geographies, chain-scales and revenue per available room (RevPAR). The hotel's strategies should be anchored by a brutally honest assessment of how the hotel: a) creates value for its guests, and b) offers competitive advantages over alternative lodging options. Such evaluations must be from the guest perspective, relying on data and actual guest feedback.

Even the smallest organizations can adopt decision-making processes based on reliable analytics by making basic tracking of both campaign expenditures and results a standard operating procedure. Understanding the baseline for what has worked in the past allows for incremental performance improvements, as opposed to radical leaps of faith. When larger risks are taken, small preliminary tests can offer a proof of concept and confirm assumptions prior to embarking on the full program launch.

"We take a conservative approach – it's very important to avoid risks. With limited resources, we don't have the luxury of trying something that might not work."

- Vice President, Distribution | Small U.S. Hotel Group

Playing to one's strengths inherently reduces risk, and risk reduction streamlines expenditure approval processes. Another way to consider marketing risk is similar to managing risk within an investment portfolio. Proven portfolio strategies identify investments that earn the highest returns, while minimizing the associated risk.

Many Masters, Many Goals

Hospitality industry fragmentation has created layered relationships with stakeholders that have different business models:

- Hotel owners assume the risk and cost of operating the hotel. They may choose to run a property independently, but often lack the resources or expertise to effectively operate and/or market the hotel.
- Management companies provide operational expertise and assume responsibility for all management decisions on behalf of the hotel owner – for a fee.
- Hotel brands have widely adopted "asset-light" strategies, shrinking balance sheets while focusing on creating brand identity, operating standards and processing reservations for members – also for a fee.

This fragmentation can result in three different entities – each with diverse revenue streams and risk exposure – favoring different distribution channels. Channel optimization requires stakeholder alignment on the hotel's strategic direction. All parties should understand an initiative's fundamental cost and volume, and the profit-related dynamics for each party.

Depending on the nature of a particular marketing program and the nature of management and franchise agreements, a party may experience risk exposure that is inconsistent with its relative share of the resulting benefits.

- A simple example is a spot-promotion through an online travel agency (OTA) that may be transacted as a net wholesale rate or a commissionable retail rate. A hotel brand may be compensated on a percentage of gross room revenue. A net rate yields marginally lower fees to the brand.
- A hotel management group may be trying to attain an incentive bonus based on achieving a target operating profit margin, and may prefer a net rate as it lowers the revenue basis by avoiding the operating expense associated with a commission payment.
- The hotel owner, depending on the nature of its relationship with a brand or management company, may favor the method that avoids compensating one group or the other – depending on the net difference between higher franchise fees or an incentive payment.

Regardless of the complexities or level of sophistication of the stakeholders, hoteliers should start with a simple channel optimization strategy: Prioritize the largest channels where goals are aligned. Each hotel should be assessed individually to account for changing market-specific and competitive set conditions.

Structuring initiatives to consider the investment and risk associated with each stakeholder at varying levels of program performance can identify common goals and avoid destructive winner/loser scenarios.

The ultimate endgame is to make well-informed, data-driven channel optimization decisions based on reliable, fact-based assessments of market conditions and operational performance. The five stages of goal-setting flow in the following order:



Measurement Process Goals.

Establishing processes and systems to capture the information required to accurately track activities and measure productivity supporting core objectives.



Return on Investment Goals.

Performance-based metrics attributing expenditures to the support of business objectives and recognition of revenue maximizing customer lifetime value.



Conversion Goals.

Process measurement and testing capabilities designed to evaluate multiple alternatives in order to determine the most beneficial course of action across guest segments.



Guest Engagement Goals.

Identification of signals indicating positive customer sentiment and behaviors that result in the highest probability of developing purchase intent for guests.



Customer Acquisition Goals.

Traffic aggregation methods securing new sources of demand, shifting from competitors and nurturing repeat patronage from past customers.

Even relatively unsophisticated hotels with a minimal understanding of their market positioning, competitive differentiators and key selling propositions can follow this goal setting hierarchy to begin prioritizing their existing channels. Starting small is better than not starting at all.

Guest Decision-Making Gets Complex

Over three decades, technological advances have reshaped the hotel distribution landscape. First it was the personal computer, which introduced self-booking capabilities. Then the Internet democratized access to hotel content, enhanced research capabilities and gave rise to OTAs. Web 2.0 produced user-generated reviews and social networks operating outside of traditional marketing channels. Finally, powerful smartphones enabled access to information anyplace, anytime.

These enhancements produce a singular outcome: individuals who command greater control over their personal travel decisions. Radically changing consumer decision-making processes demand new marketing strategies to manage such dramatic disruption. Nearly every dimension of hospitality distribution is impacted: channels, geographies, segmentation, devices and messaging.

Consumer Choice

While consumers stay in hotels as guests, the method that they choose to shop and book a hotel stay is dependent on a variety of underlying technologies and/or business relationships. The traveler may be oblivious to the financial implications of their decision based on the business model powering a channel.

Direct

- Brand.com
- Internet Booking Engine
- Telephone Call Center

Intermediary

- OTA
- Global Distribution System (GDS) – including Travel Management Companies (TMCs)
- Group/Meeting-Conference
- Group/Wholesale-Leisure

Changing Channels

Consumers have access to an unprecedented number of options to shop and book hotels, with new choices continually emerging. Not only does the popularity of different channels vary due to technology enhancements, but it is increasingly difficult to treat the channels as unified booking sources.

Phocuswright research indicates a recent inverse relationship between OTA and supplier-direct website booking trends. But the environment is more complex, with metasearch impacting OTA share and hotel call volume impacted by mobile device use (see Figure 1).

FIGURE 1: Most Popular U.S. Hotel Purchase Methods



Question: Please indicate which method you typically use to book each type of travel component. Select one response per row.
 Base: U.S. travelers who purchased lodging (2011 N=1,687; 2012 N=1,997; 2013 N=1,716; 2014 N=1,533; 2015 N=1,437)
 Note: Totals may not add to 100% due to rounding.
 Source: Phocuswright's U.S. Consumer Travel Report Eighth Edition
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The significant growth in OTA bookings in 2015 that corresponded with a drop in direct supplier website bookings may have been the catalyst that resulted in several major hotel groups launching “book direct” campaigns. While hotel brands and management companies may take a top-down approach to channel optimization, the individual property must always realize that a bottom-up perspective should ensure channels are being optimized for that property.

Research from Expedia also offers some insights into how consumers frequently cross channels throughout the journey from researching to booking hotels (see Figure 2).

To complicate matters further, some channels are now layered through partnerships with other channels. TripAdvisor changed the metasearch rules in 2015 with its introduction of Instant Booking. The new product now results in up to five distribution channels cohabiting on a TripAdvisor property page. TripAdvisor has created a hybrid marketplace where they

FIGURE 2: Booking Website vs. Inspiration Point

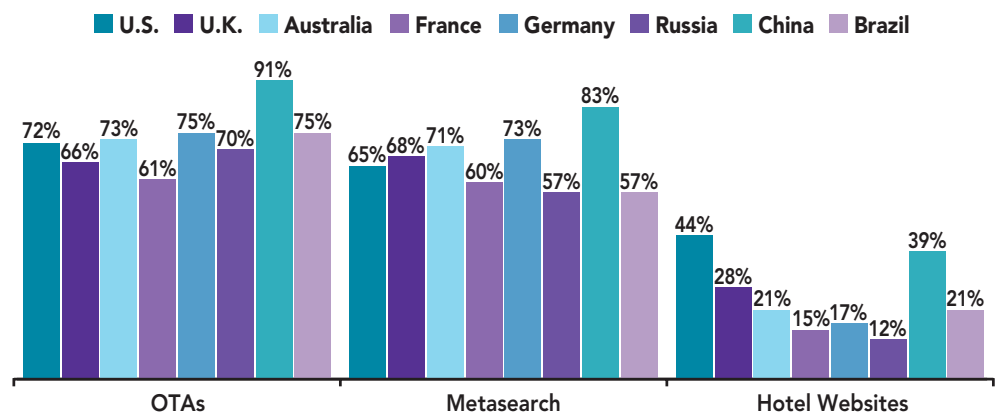
		Site where hotel was booked		
		OTA	Meta	Supplier
Site where research was initiated	Hotel Research and Booking Dynamics			
	OTA	44%	42%	34%
	Meta	24%	25%	20%
	Supplier	33%	33%	46%

Source: Traveler Attribution Study, MillwardBrown Digital/Expedia Media Solutions (November 2015). © 2017 Phocuswright Inc. All Rights Reserved.

are able to monetize a high volume of website traffic by fulfilling booking requests through a variety of business models and arbitraging the gap between their cost of acquisition and advertising/commission revenues.¹

In such cases, the hotel may be unaware of the site ultimately responsible for originating the booking. Additionally, the hotel’s efforts to promote direct bookings may unknowingly compete for traffic with one or more of the layered distribution partners.

FIGURE 3: Most Popular Types of Websites for Hotel Shopping



Question: Which of the following travel websites or apps did you use to shop for hotels and accommodation(s)? Please indicate if you used each website on your desktop computer, smartphone or tablet. *Select all that apply.*

Base: Online hotel shoppers: U.S.: (N=578); U.K.: (N=482); AUS: (N=589); FRA: (N=476); GER: (N=414); RUS: (N=419); CHN: (N=777); BRA: (N=589)

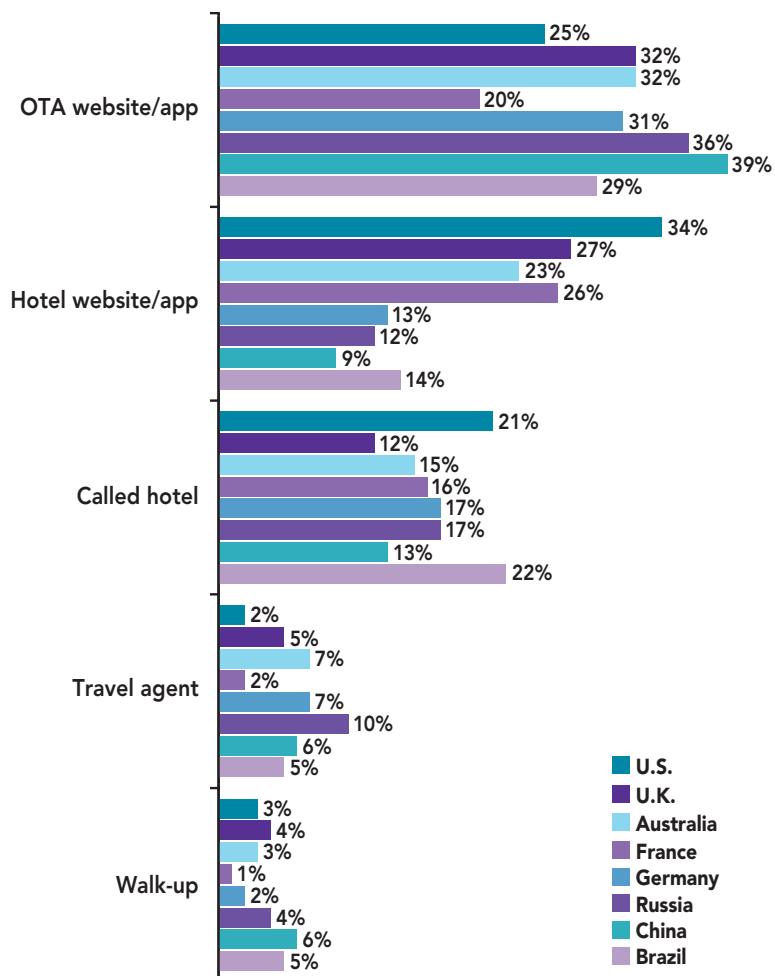
Source: Phocuswright’s *Search, Shop, Buy: The New Digital Funnel*
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1) “TripAdvisor lists hotels on Google, Kayak, and Trivago, edging closer to meta metasearch,” *Tnooz* (Aug. 24, 2016). Research.

Regional Diversity

Regional variation must be considered as well. Shopping and purchase trends change over time as markets and businesses react to changing economic, political and competitive environments. Figure 3 illustrates high level variations in shopping patterns, depending on the hotel guest's country of origin. Language is not the only difference between U.K., German and French hotel shoppers; each country displays different tendencies for booking through OTAs, metasearch or directly on hotel websites.

FIGURE 4: Booking Channel Used for Hotels for Last Leisure Trip



Question: Please indicate which method you used to book each travel component from your last leisure trip.
 Select one response per row.
 Base: Hotel bookers: U.S.: (N=777); U.K.: (N=649); AUS: (N=757); FRA: (N=605); GER: (N=539); RUS: (N=552); CHN: (N=836); BRA: (N=714)
 Source: Phocuswright's Search, Shop, Buy: The New Digital Funnel
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The purchase channel does not always correlate to shopping channel preferences. The U.S. sees higher relative shopping activity on hotel websites passing through to purchases on those websites. In China, despite relatively high hotel website shopping activity, hotels are then sold more frequently through OTAs (Figure 4).

Differences between countries may be cultural in nature, but assumptions should be made with caution. In many cases, differences may be due to variations in the types of trips taken, a result of corporate vacation policies or favored holiday destinations. Macro trends may provide directional insights, but are also the aggregation of multiple micro trends, particularly as travel personalization improves.

Concentrate on Guest Personas

As channels become more complex and layered with nuance, traditional market segmentation and demographics are insufficient when considered in isolation. Instead, leading hospitality digital marketers are focusing on behaviors and signals indicating intended behavior.

“Market segments don’t stay in hotels – people do.”

- Marketing Vice President | Luxury Hotel Group

Demographics are not as helpful to travel marketers as in other industries. Age, education, ethnicity, family size, gender, income, race and religion categories stay the same for a traveler. But a guest’s specific interests for their last trip may be radically different from their next one.

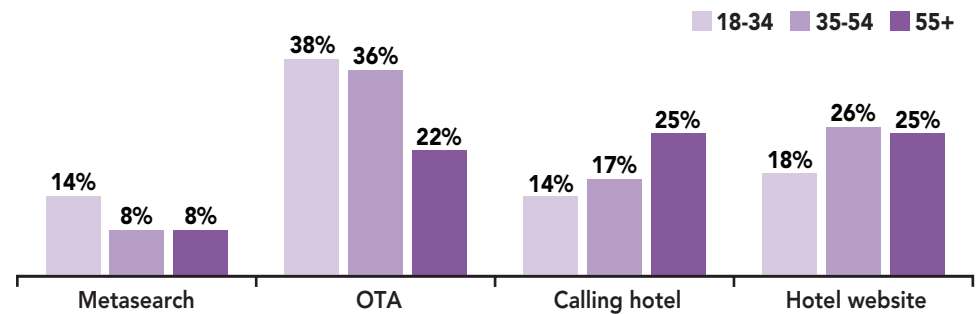
In the late 1980s, account planners for legendary advertising agency Chiat/Day were charged with expressing the voice of the consumer when crafting creative campaigns. This approach was formalized in the mid-1990s to describe hypothetical personas of target consumers. Originally, the hotel industry was relatively slow to adopt the paradigm, but it is now a standard tool used by most major brands.

Personas are aggregated representations of target customers, based on individual preferences, behavioral and demographic data. Fully developed personas describe important quantitative and qualitative aspects of the guest’s personality and the motivations guiding their travel decisions.

Personas help strategic discussions focus on satisfying the needs of human beings, not statistics. By highlighting behavioral tendencies of different guests, more actionable marketing opportunities are revealed.

For example, understanding that guests 18-34 are more than twice as likely to book through an OTA than directly through a hotel website is highly relevant when allocating funding to attract incremental weekend business from a younger demographic (see Figure 5).

Additionally, personas also help provide a conceptual bridge between high-level market segment goals and the massive volume of detailed campaign and website data.

FIGURE 5: Preferred Hotel Booking Channel, by Age

Question: Please indicate which method you typically use to book each type of travel component. *Select one response per row.*

Base: U.S. travelers who purchased lodging (2015 N=1,437)

Source: Phocuswright's U.S. Consumer Travel Report Eighth Edition

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What a Trip

The destination and hotel selection processes are also highly dependent on the nature of the itinerary. Traditional hotel market segmentation focused on who, what, where and when – yet failed to discern why a particular type of guest was traveling. Understanding the why aspect leads to insights regarding the types of experiences desired, and how the guest will make a decision, in turn, revealing channel preferences.

It's essential to acknowledge the highly personalized nature of travel. These behaviors now provide more reliable signals to marketers than mere demographics or traditional market segmentation. Google refers to these engagement touchpoints as “micro-moments” – the instants when consumers seek an answer to an immediate need. These behaviors, when appropriately interpreted, allow the marketer to identify patterns with a high correlation to purchase intent.

Hoteliers have long considered digital marketing as a tool to engage leisure travelers, but it now impacts all market segments. The travel planning process often involves a large number of searches and website visits, often with only a relatively small ratio associated with hotel selection and booking. These include destination search, dates of travel, event schedules and mapping, which all provide an abundance of opportunities for advertising, cross-sell promotions and contextual offers to the hotelier.

Figure 6 illustrates an actual group attendee booking process, highlighting the rich variety of guest itinerary planning activities. An important consideration is that the decision-making process may be different, depending on the nature of the trip. For this SMERF (social, medical, educational, religious, fraternal segment) booking example, if lodging is personally paid for by the attendee, the guest may select a less costly alternative to the headquarters hotel, or elect to book through an opaque website, rather than earn points through a reward program membership.

While reward programs track bookings associated with a particular individual, most fail to recognize that travelers sport different personas for different itineraries that may be better

FIGURE 6: Google Guest Engagement Example

Gina had over 850 digital travel touchpoints* over the course of 3 months.



*Touchpoints = searches, website visits, video views, clicks

Source: "[How Micro-Moments are Reshaping the Travel Customer Journey](#)," Google (July 2016).
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suited to different types of properties. As travelers and the technologies they use become more sophisticated, so too must the property and brand marketing teams.

The more the hotel knows about its guests' motivations, the better equipped it will be to provide more relevant products, services and experiences. In addition, its staff can better anticipate guest needs – offering solutions before the guest has an opportunity to ask.

So Many Devices

Already challenged with understanding different guest personas from different regions booking through different channels for different itineraries, marketers must also consider how mobile computing has changed consumer behavior. Travelers increasingly use mobile devices to plan and book hotels (see Figure 7).

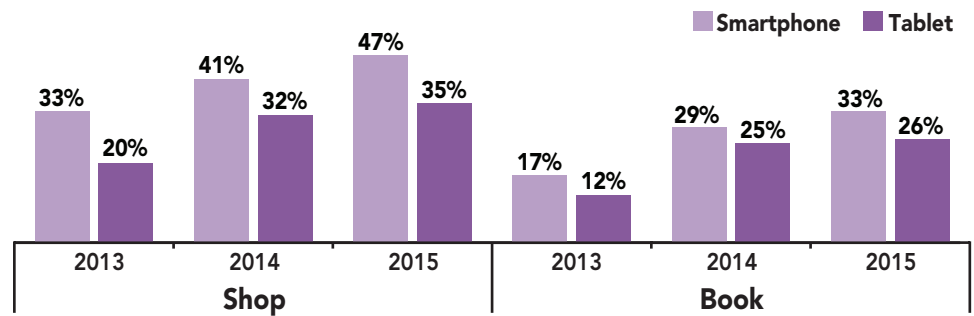
After several years of trailing other industries, travel sellers are finally becoming more adept at offering improved mobile experiences. As a result, mobile's share of travel visits has grown 48% year over year, while mobile web conversion rates have grown at nearly double that pace – 88% over the same timeframe.²

As opposed to the earlier group booking example that only had 24% of its guest touchpoints occur on mobile, the leisure trip illustrated in Figure 8 was largely planned and booked on a mobile device. With such explosive growth in mobile adoption and conversion, failing to offer an engaging mobile-optimized user experience is akin to digital suicide.

Mobile apps are important for large hotel groups seeking to engage with frequent guests across a portfolio of properties during the shopping, booking, pre-arrival and in-destination phases of travel. For most smaller groups and individual properties that lack the scale and technological expertise to develop and deploy apps, a quality mobile website that effectively showcases the hotel should be sufficient.

2) "[Travel Trends: 4 Mobile Moments Changing the Consumer Journey](#)," Google (November 2015).

FIGURE 7: U.S. Mobile Device Hotel Shopping and Booking Trends



Question: Which travel products have you researched or booked online using your tablet/smartphone during the past 12 months? *Select all that apply for the products you researched or booked.*

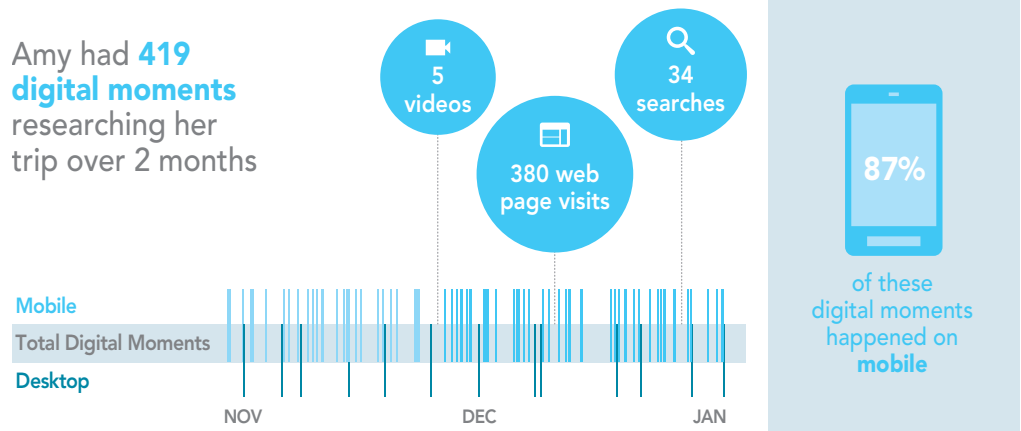
Base: Hotel stayers (2015 N=1,524; 2014 N=2,438; 2013 N=1,969)

Source: Phocuswright's U.S. Traveler Technology Survey Sixth Edition

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FIGURE 8: Leisure Trip Mobile Guest Engagement Example

Amy had **419 digital moments** researching her trip over 2 months



Source: "Travel Trends: 4 Mobile Moments Changing the Consumer Journey," Google (November 2015).

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Get Your (Data) House in Order

The father of modern management, Peter Drucker, famously stated that "you can't manage what you can't measure." It is essential to benchmark performance and monitor improvement when managing digital marketing campaigns and optimizing distribution channels. Without a solid foundation of reliable data quality, any measurement or analysis efforts become futile.

Capturing Data – Creating Knowledge

As with every other aspect of the hotel business, one size does not fit all. The largest travel websites are collecting massive amounts of information in big data storage for future reference by machine learning and predictive analytics algorithms. While such operations are costly to develop, maintain and staff, even the smallest independent hoteliers are able to reliably capture essential information using free platforms, the most widely used being Google Analytics.

A variety of digital marketing hubs are available at a range of price points, each with its own unique features and limitations. The most important consideration is to select a platform that will reliably protect the data and support vigorous analysis, while enabling

The Increasingly Complex Hotel Technology Stack

Beyond digital campaign management to acquire customers and distribution platforms to support reservations, an increasingly tangled web of inter-related systems is responsible for providing quality service delivery to hotel guests. In the age of TripAdvisor, hoteliers are more accountable for quality.

Hotel technology is categorized by marketing, operations and back-office functionality. To quantify sales resulting from marketing initiatives, guest accounting systems must link back to the source of business. As personalization of guest experiences improves, operating systems must also be brought into the loop.



growth and future enhancement as programs and performance measurement needs become more sophisticated over time.

For most hotels, the core data sets will involve tracking visitor statistics, navigation paths and events from the hotel’s website; sales transactions from booking engines or the



property/central reservation systems (PMS/CRS); inventory and pricing from the revenue management or channel management system; guest profile and stay history from a CRM platform; and social media referrals from a reputation management platform. Some hotels will support all these systems, others only a PMS.

The key to success is not having more systems, but capturing accurate information from available systems to understand guest needs and preferences.

“Good data beats good algorithms, every day of the week.”

- Chief Information Officer | Major OTA

For hotels just starting out, the key is to start simple, capturing basic information related to business goals and key performance indicators (KPIs). The objective is not to collect data; it is to gain insights, thus the importance of capturing goal-related performance data. Once basic reporting and analytics are produced, new data sources may be gradually introduced and integrated, assuming support for an extensible data structure.

Tags, Cookies and IDs: Use ‘Em or Lose (Business)

Campaign tagging captures an action and links it to a specific marketing initiative. Tags provide invaluable information regarding the source of a click that brings a customer to a website landing page.

Despite their valuable tracking capability, a surprising number of hotels fail to tag social media links to content pages or booking engines. Best practices dictate that every link encountered by a prospective guest should be tagged.

“Tagging content for tracking is table stakes. Otherwise, it’s like buying a billboard.”

- Sr. Director Digital Marketing | Digital Travel Advertising Platform

By employing campaign tags, traffic arriving on a hotel website landing page can be identified not only by source, but by the campaign and the ad creative that triggered the visit. Consistent tagging methodology across promotions and distribution channels eliminates ambiguity. For sophisticated omni-channel campaigns, tags can help to associate customer acquisition tracking across platforms.

The most valuable piece of data hotels possess is the first-party tracking cookie – a unique identifier that allows a user to be remembered across various sessions while browsing a website. The cookie not only serves as a link to previous website visits, but often serves as a connection to website registration and the frequent guest/reward program customer profile.

For hotels, guest profile links provide access to a rich store of stay history, personal preferences and award tier data to personalize the online experience. A first-party cookie is a valuable digital key to aligning proprietary and personally identifiable information that the user has shared with the business. First-party cookies are rarely blocked by ad-blocking software, as they enable personalization processes.

A newer tracking tool is the advertising identifier that follows consumer behavior, enabling the presentation of targeted ads across devices, based on the user’s interests. Each of the dominant platforms in digital commerce – Amazon, Apple, Facebook, Google and

Microsoft – offer their own form of ad ID. These ad IDs do not capture personally identifiable information, but accurately track cross-device behavior of that unique identifier within each provider’s digital ecosystem.

Advertising IDs are becoming more powerful as third-party applications use Facebook, Google, Twitter, and other sites for authentication to simplify the mobile login process. Further, Facebook supports the creation of custom lists using Apple’s Advertising Identifier and Google’s Android Advertising ID to tie into data captured through mobile apps where cookies are not supported. These custom lists allow customer acquisition programs to reach billions of consumers, across devices.

Behavioral Observations

The true digital marketing “secret sauce” that enables highly targeted, cross-device marketing and customized digital user experiences is the successful pairing of proprietary consumer information from first-party cookie data with advertising IDs. When combined with robust campaign tagging and reliable analytics, hotel conversion optimization is not only able to measure promotional campaign success, but also track which combinations of marketing programs, personas and products produce the greatest ROI.

Marketers are able to customize online experiences by capturing explicit signals associated with a unique individual. Even for first time website visitors, an IP address can reveal a geographic location, and a browser’s screen resolution can signal use of a mobile device. A search for winter holidays can return seasonally appropriate imagery. A search for two adults plus two children can indicate a family or suggest key selling points – without needing actual demographic or profile information about the guest.

Once an individual is identified, their actions are then tracked to stay connected throughout the travel life cycle. If personas are associated with these behavioral characteristics, the marketer is able to seek new prospective customers using “lookalike” audiences sourced across partner websites and ad platforms.

The Business of Optimization

There are three cornerstones within every business executive’s description of a successful strategy: properly setting business objectives; driving profitability; and measuring results to manage continuous improvement. These are also the fundamental strategic processes that power successful channel optimization initiatives.

Channel Optimization Resources

Prioritizing channels for optimization is a challenge, even for the most expertly managed properties. Each property is different, and even sister properties under a common brand may have very different experiences acquiring or converting traffic.

Customer acquisition is commonly the domain of major hotel brands. Search engine optimization (SEO) and search engine marketing (SEM) programs are often handled above property – applying strategies tailored to markets or brands. Similarly, brands may require

that member hotels only support the brand website, giving the brand full responsibility for optimizing conversion rates.

An independent property or regional hotel brand can't outspend an OTA to acquire traffic (see Figure 9). Instead, a hotel needs to focus on the channels preferred by its customers, and target the personas that best fit the hotel's operating profile. It is critical for smaller, regional hotel groups and independent properties that lack access to the resources of large brands or management companies to secure the expertise from digital agencies, distribution technology partners, strategic consultants or staff specialists to address their specific needs.

FIGURE 9: Advertising, Sales & Marketing Expenses, Priceline and Expedia, 2010-2015

Year	Priceline	YOY Growth	Expedia	YOY Growth	Combined	YOY Growth
2010	\$710,000,000		\$1,240,000,000		\$1,950,000,000	
2011	\$1,120,000,000	58%	\$1,480,000,000	19%	\$2,600,000,000	33%
2012	\$1,330,000,000	19%	\$1,720,000,000	16%	\$3,050,000,000	17%
2013	\$2,170,000,000	63%	\$2,200,000,000	28%	\$4,370,000,000	43%
2014	\$2,900,000,000	34%	\$2,810,000,000	28%	\$5,710,000,000	31%
2015	\$3,370,000,000	16%	\$3,380,000,000	20%	\$6,750,000,000	18%
Total	\$11,600,000,000		\$12,830,000,000		\$24,430,000,000	

Source: "[Advertising, sales and marketing expenses of Priceline Group worldwide from 2010 to 2015](#)," Statista and "[Selling and marketing expenses of Expedia, Inc. worldwide from 2009 to 2015](#)," Statista

OTA marketing spending continues to climb – with Priceline and Expedia combined increasing global spend at a compound annual growth rate (CAGR) of 23% over the past six years. While consolidated hotel industry figures are not available, Phocuswright projected aggregate U.S. hotel advertising spend for 2015 at \$2.1 billion.³

The greatest channel optimization challenge is developing the staff skills required to define and execute the property/brand's strategy. This is not solely an engineering/data science task; individuals with hospitality industry experience are required to understand operational processes as well.

Giving Credit Where Credit Is Due

Once objectives are defined and resources identified, the biggest challenge is to properly attribute responsibility for bookings that involve multiple touchpoints. Many forms of attribution modeling exist, and there is considerable debate regarding which method most fairly allocates credit relative to the actions contributing to a conversion.

Google's digital marketing evangelist, Avinash Kaushik, succinctly summarizes the idea of wanting to determine the precise attribution for each sale as "a completely foolish exercise."⁴ The challenge for the hotel channel optimizer is to evaluate various

3) "[The U.S. Travel Advertising Marketplace: Industry Sizing and Trends 2015](#)," Phocuswright (June 2014).

4) Avinash Kaushik, "[Multi-Channel Attribution Modeling: The Good, Bad and Ugly Models](#)," Occam's Razor Blog (Aug. 12, 2013).

attribution models, perhaps applying some in combination, to determine which model best suits a particular persona's behaviors. Sadly, the most popular and simplistic method, "Last Click Attribution," is grossly insufficient, as it ignores all touchpoints that occurred prior to the last click. The best attribution method will be data-driven and support omni-channel, cross-device tracking.

Full-Funnel Optimization

One of the greatest challenges for hoteliers is to eliminate the management silos that isolate various disciplines related to hotel merchandising, distribution and revenue management. In many cases, customer acquisition is considered an advertising-related function, overseen by digital marketing. The distribution group has more technologically-oriented responsibility for booking engines and intermediary relationships. Pricing strategy is commonly handled by revenue management.

Successful marketing programs require tight strategic alignment and tactical integration of customer acquisition campaigns, booking processes and pricing to attract high-value prospects and monetize the engagement by profitably converting business.

"We are targeting personas and managing the same guest profile across all platforms. This omni-channel approach is increasing conversions higher in the funnel."

- Sr. Director Digital Marketing | Major Digital Travel Advertising Platform

Taking a holistic, end-to-end perspective, the upper portion of the funnel – customer acquisition – involves two distinct aspects of attracting website traffic. The first is the realm of potential marketing campaigns. The types of campaigns launched by the hotel should be tailored to the preferences and behaviors of the persona being targeted. Campaigns involving personas that tend to drive higher ancillary spend, or those more likely to result in repeat visits may justify a higher-than-average advertising bid. Examples of types of customer acquisition campaigns include:

- Search (SEO/SEM)
- CPC advertising
- Email marketing
- OTA advertising
- Social media
- Retargeting
- Metasearch
- All forms of offline advertising

The second aspect of customer acquisition represents content – the desktop and mobile design, navigation, storytelling, and rich media used to characterize the hotel. While content is king for any e-commerce site, the broader goal is for content to drive engagement. The ultimate goal is enabling the guest to easily locate information while hopefully being

informed, inspired or entertained in the process. The content must also be optimized for performance in order to avoid abandonment-inducing delays.

The lower portion of the funnel is dedicated to distribution conversion – the process of monetizing the traffic acquired by converting sales. Two types of fundamental distribution channels exist – those that process bookings directly with the hotel or its affiliated brand, and those that involve intermediaries such as OTAs, TMCs and group bookings handled by the hotel sales office. Intermediary bookings are frequently subject to terms that are negotiated in advance by hotel or brand staff – either at net, non-commissionable rates, or commissionable on a retail or discounted price.

The upper and lower portions of the funnel must work in tandem to offer an end-to-end user experience across the initial point of visitor acquisition, through the online discovery/shopping experience and ultimately through the booking process. Tracking methods and analytics should be similarly aligned throughout the full length of the funnel to ensure accurate performance measurement.

Data-Driven Decision Making: Getting Testy

Establishing the data capture and analytical process, however, is just the beginning. Hoteliers must adopt data-driven, decision-making strategies to prepare for disruptive competition from both within and outside of the industry. For organizations that adopt data-driven decision making, the most significant benefit may well be the ongoing benchmarking of KPIs to manage continual organizational improvement.

Most website and usability testing is generically referred to as A/B Testing. Basic A/B testing evaluates test results based on the change of a single variable. In reality, many factors influence behavior. Multivariate testing (MVT) considers multiple factors simultaneously. Unlike A/B testing, MVT can discover amplification scenarios where the combination of multiple factors yields extraordinary benefits. The ability to link multiple relationships also allows for association with persona and/or channel signals that can reveal non-obvious combinations that increase desirable user actions. The recursive testing regimen helps the organization identify and refine best practices impacting all aspects of the operation.

Tying It All Together

Understanding Profitability – Introducing Net RevPAR

The global hotel industry largely operates on a single core metric: revenue per available room (RevPAR). Unfortunately, the underlying factors driving RevPAR – room occupancy percentage and average daily rate (ADR) – fail to consider the sales, marketing and distribution costs associated with producing a booking. Without total insight it is impossible to adequately value the ROI of various channels.

Revenue is based on recorded room revenue as opposed to the total paid by the guest. This results in inconsistencies between retail/commissionable and merchant model/wholesale bookings. RevPAR also ignores revenue and profitability derived from ancillary guest spend on non-room related product like food & beverage, recreation, spa and merchandise.

One Hotel Group's Approach

An international hotel group has spent several years focused on acquiring properties, refining service standards and striving for operational consistency across its portfolio. They relied heavily on OTAs for traffic and created a strategy to build direct booking volume.

Starting With What They Had

The group had good first-party cookie data, contributing to an understanding of who was visiting the website, how they navigated the site, and what they were buying.

Better Analytics

The hotel upgraded its analytics package, using tags to link campaigns to website browsing, its booking engine and property management system.

Retargeting Search Ads

Website visitors were cookie'd and placed into a retargeting pool based on relevant keywords.

Identifying Personas

By having desk clerks ask "What brings you to our hotel?" and "How can we be of assistance?", the hotel was able to categorize guests into personas.

Seeking Lookalikes

With the analytics and personas defined, marketing campaigns targeting lookalike audiences were created based on their most profitable personas.

Contextual Display Ads

Understanding why guests were staying at the hotel, a contextual display ad campaign was developed to target specific personas.

ID Required

Advertising IDs from Facebook and Google were used for more granular retargeting campaigns.

What's Next?

With base performance metrics established, ongoing A/B testing will be used to further refine the campaigns.

The approach will be rolled out to sister properties.

Figure 10 illustrates the calculated ADR/RevPAR differentials comparing hotel revenue, as opposed to net revenue adjusted for commission expense as the basis. In either scenario, hotel guest payment, intermediary compensation and hotel net revenue are identical, while ADR and RevPAR vary wildly.

Unfortunately, under the retail/commission model, the ADR and corresponding RevPAR are significantly higher than for a corresponding merchant/wholesale booking. Having such an important industry metric impacted so dramatically by a material share of booking volume creates confusion and undermines the ability of owners, managers and brands to effectively understand hotel profitability.

Net RevPAR deducts booking costs, as well as sales and marketing costs to arrive at the hotel's net room revenue. The costs are allocated into six categories: retail commissions, wholesale commissions, channel costs, amenity costs, loyalty costs and transaction fees. The Net RevPAR formula is:

$$\text{Net RevPAR} = \frac{\text{Guest Paid Revenue} - \text{Acquisition Costs}}{\text{Available Rooms}}$$

FIGURE 10: Comparison of RevPAR Derived From Retail and Merchant Models

	Basis	Retail	Merchant
Revenue Recognition			
Guest Payment		\$200.00	\$200.00
Wholesale Discount	15%		\$30.00
Booked Revenue		\$200.00	\$170.00
Commission	15%	\$30.00	
Net Revenue		\$170.00	\$170.00
Statistical Impact			
Average Daily Rate		\$200.00	\$170.00
RevPAR (@ Occ%)	70%	\$140.00	\$119.00
Net RevPAR (@ Occ%)	70%	\$119.00	\$119.00

Source: Phocuswright Inc.
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The channel optimizer must understand its fully diluted, aggregated RevPAR – incorporating total guest spend from all hotel operating departments and considering the full burden of fees associated with management and brand affiliations to make adequate assessments.

Getting Direct Booking Right - Context is Everything

The expressed intention of major global hotel brands to increase their share of direct business is well-known. For a specific hotel, such high-level decisions may ultimately be beneficial or detrimental. To fully assess the best channel mix, a large number of factors must be considered. By establishing a data-driven decision-making process, alternatives may be tested and results evaluated to determine the best route forward.

In the following example, a family beach resort hotel intends to optimize its retargeting ad spend and boost hotel direct distribution. Channel optimization processes must consider at least a dozen factors:

- Offering the right PRODUCT (beachfront hotel)
- Including the right EXPERIENCE (kids eat free package)
- To the right PERSON (targeted persona/segment)
- Providing the right VALUE (ocean view upgrade)
- For the right PRICE (\$299 per night)
- Using the right CONTENT (family beach GIF)
- Via the right MEDIA (retargeting ad)

- On the right PLATFORM (mobile)
- Doing the right THING (clicking on an offer)
- In the right PLACE (metro New York City)
- At the right TIME (weekend evening)
- Through the right CHANNEL (hotel-direct)

Countless tools are available to measure many of these areas individually. But to compete effectively, hoteliers require a planning framework capable of translating organizational goals to maximize performance of campaigns, customer segments, products and operations through various distribution channels. Without quality tracking data, it is impossible to optimize the channel for true profitability and the resulting customer acquisition and conversion dynamics associated with a promotional campaign.

Key Takeaways and Recommendations

Hotels require a comprehensive approach to address growing market complexities, resulting from more sophisticated multi-persona travel shopping and booking in a layered, multi-device, hybrid channel marketplace. To provide relevant and timely marketing messaging, guest behaviors must be accurately tracked throughout the customer journey, and assessed for impact by customer acquisition, engagement and conversion initiatives.

Creating a Channel Optimization Approach



Build on Your Foundation

Based on a sound foundation of analytics, hoteliers now possess the tools to better engage guests as individuals. It should be anticipated that as more attention is paid to both explicit and implicit behavioral signals for various personas, the scope of customization and personalization will bridge online channels, as well as on-property interactions.



Leverage Persona-Based Motivation to Understand Behavior

By understanding [persona-based motivation](#) and trip purpose, the behavioral tendencies (adjusted for regional variations) and multi-device touchpoints impacting channel preference will offer more relevant insights than traffic and conversion statistics lacking context. Even for less sophisticated marketing practitioners, accurate behavioral tracking and performance metrics will be essential for executing successful optimization strategies. It is critical for hotels to take a strategic view of their target customers, based on accurate segmentation and detailed knowledge of their behavior.



Assess Channel Risk and Return

Given the large advertising budgets, sophisticated technology platforms and data-driven decision cultures of the OTAs, hotels need to step up their game to more efficiently acquire traffic, and more effectively convert that traffic into more profitable transactions. The same applies to independent properties competing for market share against

branded hotels. The entire lodging industry may also heed this warning, before facing a major disruption facilitated by technological advancements.

Existing guest [channel preferences](#) must also be considered when developing an optimization strategy. While direct booking channels may be more profitable, the cost, time and probability of success in attempting to change established consumer preferences must be thoroughly evaluated. Additionally, with brands, management companies and owners all potentially involved, initiatives must fairly align responsibilities with risks and returns.

Hoteliers must deliberately analyze the [customer acquisition and distribution conversion](#) impact of transitioning traffic to new channels from a holistic perspective. It may be more cost effective to solicit new demand than alter the behavior of existing customers. If the high costs and/or risks associated with executing a significant channel shift strategy undermine the ROI, then the focus should shift to eliminating friction within the hotel's current engagement and sales funnel.

The hotel's channel mix must also be designed to support not only existing, but potential future market conditions. During peak periods, a property may gain more flexibility by favoring certain high-margin channels, but during economic downturns, that luxury may evaporate – forcing greater reliance on lower-margin channels able to deliver scarce demand. The optimal mix is unique to each property, based on local market conditions. One size rarely fits all.



Breaking Through

Once the hotel industry successfully addresses the strategic fundamentals, conversion optimization will be enhanced to focus on further process enhancements that are expected to deliver four key marketing breakthroughs:

- 1) Eliminate digital marketing/sales/advertising/CRM/social/revenue management silos to share information that improves customer acquisition and guest personalization.
- 2) Refine customer segmentation granularity down to the individual traveler/itinerary level to better anticipate guest needs, increase conversion and enhance satisfaction.
- 3) Embrace machine learning and big data to identify better signals from more sources.
- 4) Apply advanced technology as a tool to make better decisions more quickly, and empower guest contact staff to focus on hospitality and service delivery instead of administrative functions.

In the immediate term, the hotel industry should consider the conversion optimization strategies and tactical best practices to improve unit profitability and maximize customer lifetime value. For properties with limited access to resources, the same approach may be followed, with priority given to the channels and personas that drive the greatest share of profitable business.

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