

Online travel agencies

Helping Europe's
small and independent
accommodations succeed
in the global marketplace



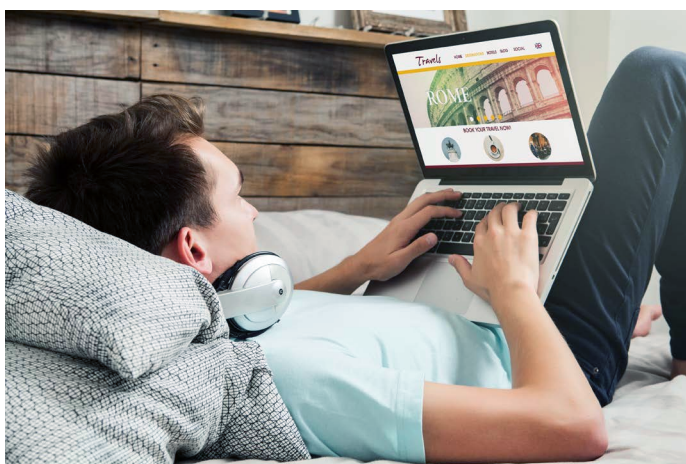


Introduction

Europe is the world's leading tourist destination and is unique in its diversity – and fragmentation – of the accommodation sector. While chain hotels dominate in many other regions of the world, it is the independent small and medium-sized accommodations that account for around 60% of room capacity across Europe. This fragmentation is reflected in the wide range of accommodation types – from family-run *agriturismos* in rural Spain to boutique inner city hotels in Amsterdam catering to all kinds of travelers.

Today, Europe is the world's leading tourist destination. It accounts for around 50% of the world's tourist arrivals, according to the United Nations World Tourism Organization. Five of the top ten visited destinations in the world are located in the EU.¹ In particular, the rising number of arrivals from the growing middle classes in China and Latin America are fueling demand. Since 2009, arrivals from China alone have seen a more than fivefold increase.

The European tourism sector is highly fragmented and is made up of 2.3 million businesses, primarily small and medium-sized enterprises (SMEs). These businesses employ over 12 million people. Furthermore, the "travel and tourism" sector contributes significantly to GDP, direct and indirect impact amounting to 10.3% of EU GDP. Within this sector, overnight trips form the backbone of the tourism sector and are a large contributor to employment. In Europe, independent hotels make up 87% of available hotel accommodations and are as such a key driver of demand for tourism activity.



However, Europe's small and medium-sized independents are under pressure from large international hotel chains. The mix of travelers in the EU is becoming more international. Over the past 10 years, [international tourist arrivals in the EU have grown from 350 million to 520 million per year.](#)² [Growth in international arrivals strongly outpaces domestic tourism growth.](#)³ The growing share of international arrivals necessitates greater marketing and distribution efforts by the accommodation sector. International travelers – in contrast to domestic tourists – are not familiar enough with the destination market to find accommodations on their own. Independent SME accommodation providers have a harder time reaching international sourcing markets; they lack the scale to efficiently market their accommodations globally. Larger entities can leverage their scale, spreading marketing costs over a greater number of customers. The same goes for online marketing and distribution, which is becoming ever more important and requires substantial investments in technology and skills. It therefore comes as no surprise that the "independents" within the accommodation sector have been losing ground in Europe to chain hotels with greater marketing and distribution muscle. Between 2017 and 2019, the share of independent accommodation providers within the sector has decreased by about three percentage points, and this trend is expected to continue.

This report will detail options available to small and medium-sized independents in Europe to reach consumers and stay competitive. It will evaluate the added value of OTAs in particular, and the importance of this channel to this accommodation segment. OTAs provide smaller, independent accommodations access to global marketing and distribution, enabling independent accommodations to compete with chains for international travelers. OTAs provide the scale SMEs cannot achieve on their own in a flexible and risk-free manner. This service comes at a price and some accommodation providers view OTA commission rates as too high. However, as this report shows in detail, the accommodation sector acknowledges the considerable value the OTAs provide and is aware it could not replicate these services at lower cost. In fact, OTAs provide substantial incremental revenue and are the main growth driver for smaller accommodation providers. This significantly contributes to their profitability and as such to long-term viability.

¹ Source: EU Tourism Trends Report, 2019

² Source: The World Bank Open Data, International tourism, number of arrivals from 1995-2018

³ Source: World Tourism Organization (UNWTO), European Union tourism trends, 1995-2018

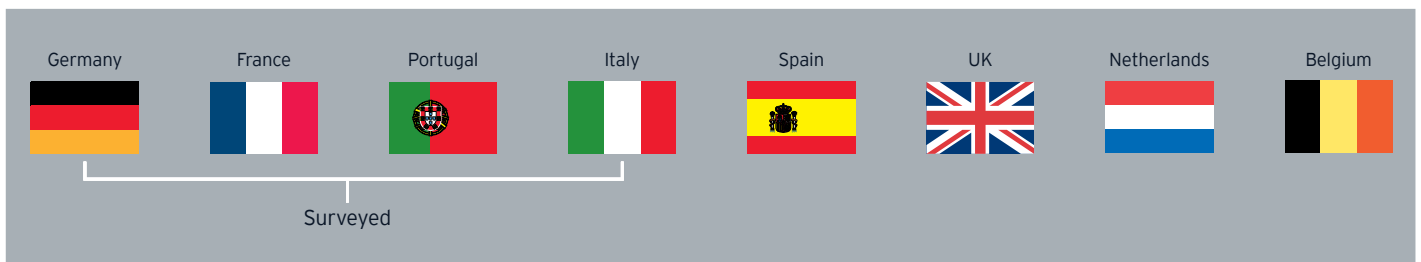
Definition of an independent, small-to medium-sized accommodation

The focus of this paper is on independent, smaller and medium-sized accommodations. This excludes those that are part of a chain, either branded (e.g., Marriott, Hilton and Accor) or “white label” (where they retain their individual accommodation name, yet, typically leverage joint marketing activities, a shared back office, hotel management systems, etc.). The size of an accommodation is typically measured in number of rooms; it can be as small as guest houses with only one or two rooms, to medium-sized accommodations and large hotels with even more than 1,000 rooms. The focus group in this report is small and medium-sized accommodations with up to 250 rooms, though excluding the single-room type of accommodation, also referred to as private lodging.

Finally, this report will offer a perspective on how the future of accommodation distribution is expected to develop and what this means for Europe’s ecosystem of small independent accommodations. The findings in this report are based on existing research and a wide variety of newly collected data at the end of 2020. An extensive international survey has been undertaken among 600 accommodations, each with its own characteristics and dynamics. More than 30 different accommodation providers have been interviewed in depth. Moreover, various analyses have been performed based on internal data of Booking.com regarding specific cases of accommodations with respect to their platform. Any effects of the COVID-19 pandemic are excluded in the presented figures, even though this cannot be totally ignored in the forward-looking view given the severe impact on the travel and leisure market.

Primary research

EY-Parthenon teams conducted various forms of primary research across eight countries to substantiate the findings

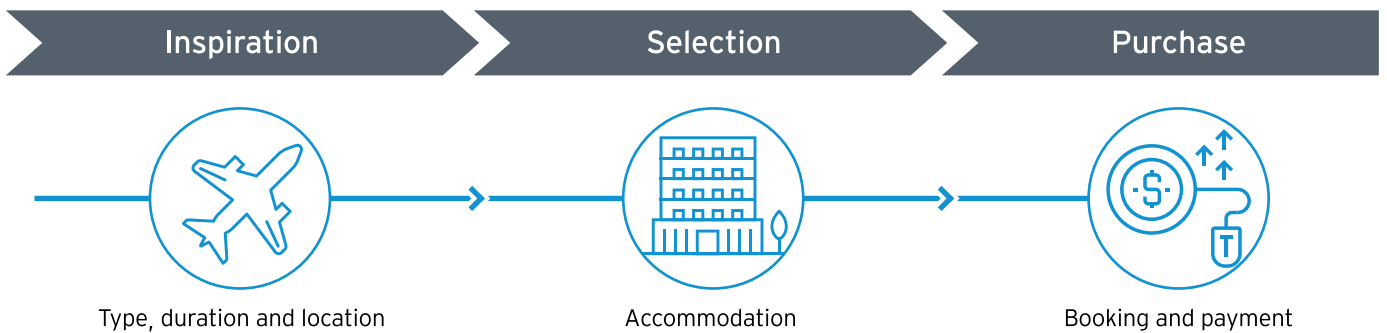


From looking to booking:

How consumers find the right accommodation among endless choice

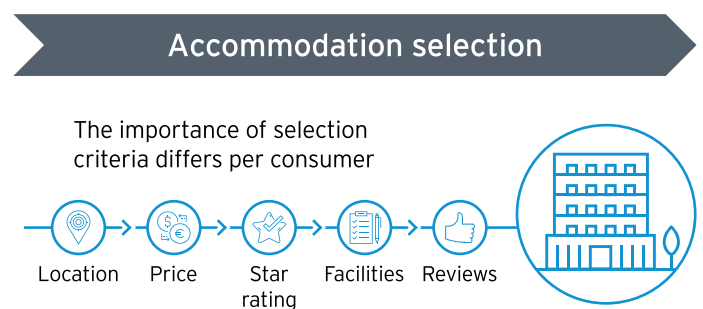
Finding and booking an accommodation is not as straightforward as it might seem. Consumers go through various steps to reach a decision and often suffer setbacks along the way. For example, after an extensive search, the desired accommodation might not be available for the preferred travel dates. In this case, the consumer might start again and look for other destinations.

The consumer journey can generally be classified in three phases: inspiration, selection and purchase (actually booking and paying for the trip). With its wealth of information, the internet has become central to this consumer journey. A 2018 Booking.com survey of a representative sample of 4,400 travelers⁴ shows that almost all consumers make use of online channels for at least part of this process. Although a large proportion of bookings is still made offline, the online option is on the rise as more and more people value its convenience.



In their search for accommodation, consumers use a variety of channels. They decide on destination and trip duration based on their needs. For business trips, this is usually a given. For leisure, however, consumers seek inspiration while considering potential destinations. Consumers find passive inspiration through television, magazines, travel sections of newspapers, family, friends and co-workers, travel bloggers, advertising billboards, or social media. These sources can spark travel ideas, without triggering active planning.

As the intention to travel becomes more defined, sources are consulted more specifically. Consumers can visit a travel agent, buy a travel magazine or travel guide, request information from a destination marketing organization, talk to friends/relatives, or actively search online. Online exploration often starts at a general search engine (e.g., Google, Baidu), after which consumers typically visit a multitude of different websites. The inspiration phase is a process that can take substantial time and might also be interrupted over the course of time. A wide range of actors play in the online ecosystem and cast information to consumers. Besides traditional tourist industry suppliers like accommodation providers and airlines, information is also brought by tourist associations, OTAs and affiliated or independent influencers such as bloggers. All these information channels (aim to) trigger and influence consumers in their travel behavior.



Once a destination, or a set of destinations, has been selected, searching for and selecting a suitable accommodation starts. This can be an iterative process and is mostly based on personal preferences. These include price, location, facilities, services, quality (e.g., rating design) and availability. To gather information on such factors, consumers can again consult a variety of online and offline channels. To a large extent, these are comparable to the ones used during the inspiration phase. However, each channel has some specificities. Consumers can complete the customer journey themselves or can rely on the service and assistance of professionals for (at least) part of the process – travel agents or a destination marketing organization. If a consumer chooses to make an unassisted booking, there is again a choice between doing so via on- or offline channels, the latter still prevailing in Europe. However, consumers are increasingly using the internet not only to find an accommodation, but also to book that accommodation.

⁴ Source: Booking.com consumer survey, 2018

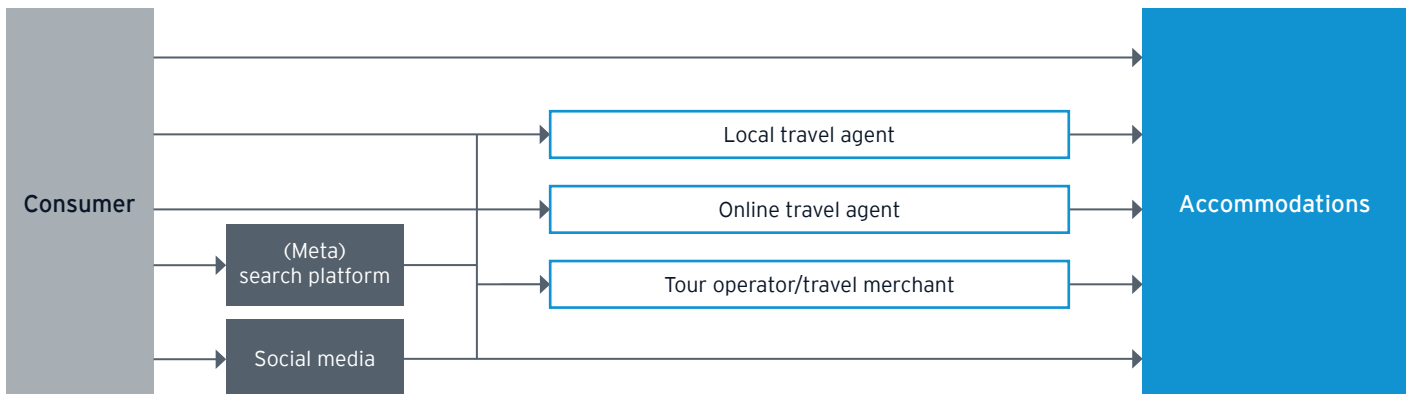
Just as in other parts of our lives, the web has led to an explosion in the availability of information and options to find and book an accommodation. Consumers are no longer confined to a travel catalog. Language barriers are becoming less relevant with automated translations available and many websites offering more than just a local language. Online availability has significantly enhanced consumer choice. At the same time, it has become increasingly challenging for consumers to process and assess all of the available information and options. For example, there are more than 2,000 hotels in Paris alone, many of them with their own websites. How does a consumer review even a meaningful subset of these websites? Just finding and comparing the city's approximately 100 five-star hotels would take an entire day. However, business models focused on aggregating, standardizing and validating information have enabled a considerable reduction of search costs and increased consumer transparency. This has enabled consumers to make more convenient, easy and swift comparisons themselves and match bookings to their personal preferences. It is this convenience that is fueling the shift toward online travel search and booking.

The search for an accommodation in a specific destination often starts online through a search engine (e.g., Google, Baidu). Other frequently visited websites are online travel platforms (e.g., meta-search aggregators such as Trivago or OTAs such as Booking.com). In addition, social media is vying for consumer attention, often referring potential bookers to direct or indirect channels via affiliate marketing programs, and it is increasingly turning into a booking platform itself. In Asia, "superapps" such as Baidu or Meituan serve as virtual storefronts for businesses, providing information and often offering direct booking functionality. Finally, it appears that an accommodation's own website is still one of the most widely used sources in the consumer quest for information. However, this typically takes place after the search on other channels has narrowed to a manageable number of options.

The final step in the process is the actual booking of the selected accommodation. Bookings can be made directly with the accommodation, or through third parties such as OTAs and tour operators (see next section for more detail). Consumers have the opportunity to book online or, more traditionally, via one of the offline options (next booking during current visit, walk-ins, phone, etc.). Online systems are tailored to increase convenience, flexibility and self-service ability. Consumers are provided with additional choices such as type of room, cancellation options, payment terms, additional services (breakfast or half-board, free minibar, access to wellness area, airport transfer) and payment options. Personal details can be added easily to the booking process. Depending on booking policies, consumers can be redirected to direct payment options. When the booking is completed, a confirmation can be added directly to the consumer's agenda and digital wallet.

Chapter summary

- ▶ There are various ways and channels for consumers to go from looking to booking, and consumers make use of many of these channels in parallel or sequentially
- ▶ The search for an accommodation in a specific destination often starts online, from where consumers have access to thousands of accommodation options all over the world
- ▶ Online information aggregators have made finding the right accommodation easier and more convenient and as such have decreased search costs



A local product for a global audience:

How accommodations market and sell their rooms

Europe is unique in the diversity – and fragmentation – of its accommodation sector. The majority of hotels in Europe are independently owned. Based on Horwath's 2019 European Chains and Hotels report, 87% of hotels across Europe are independent, representing 63% of available room capacity. This differs quite substantially from other regions of the world. For example, branded chain hotels in the US account for approximately 70% of all accommodations. However, this fragmentation and skew in terms of average size creates unique challenges for Europe's accommodation sector. Independent accommodations have a harder time to reach the necessary scale to operate at a level where they can effectively compete with larger chain accommodations. This is particularly true when it comes to marketing and distribution. For example, an advertisement in a travel or in-flight magazine costs the same regardless of the accommodation's size. And larger entities can leverage their scale, spreading these costs over a greater number of customers. Since accommodations compete globally for customers, Europe's SMEs are at a structural disadvantage.

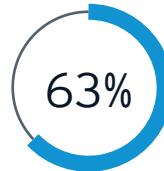
In addition, the mix of travelers in the EU has changed substantially over the past 30 years. In 1996, the year Booking.com was founded, there were 250 million international tourist arrivals in the EU per year. In 2018, that number has more than doubled to 520 million. Growth in international arrivals strongly outpaces domestic tourism growth. In particular, the rising number of arrivals from the growing middle classes in China and Latin America are fueling demand. Since 2009, arrivals from China alone have seen a more than fivefold increase. Asian travelers now account for the same share of overnight stays in the EU as those from North America.

The growing share of international arrivals obliges the accommodation sector to undertake even greater marketing and distribution efforts, as international travelers – in contrast to domestic tourists – lack the familiarity with the destination market to find an accommodation on their own. It comes as no surprise that independent accommodation providers have been losing ground in Europe to chain hotels, with their greater marketing and distribution muscle. Since 2009, the room share of independent accommodation providers has decreased by about 10%; this trend is expected to continue.



decrease in the share of independent accommodations, a trend which is expected to continue

For Europe's independent SME accommodations to remain viable, they need to continually reassess and re-think their marketing and distribution strategies to make up for their lack of scale.



of the total room capacity in Europe is independent hotels

The focus of this research is exactly on this group of small and independent accommodation providers in the EU. Due to their unique challenges, the distribution mix of small independent accommodations differs substantially from those of larger-sized and branded (groups of) hotels. We will show how this mix is determined by the added value of a particular channel as well as overall economics of an accommodation, which will be further detailed in the next chapter.

From an accommodation's perspective, while different distribution channels are generally substitutes, they provide different opportunities to reach potential customers. For example, a listing in a local travel magazine will only reach a specific and limited audience. In contrast, advertising on a search engine can reach a global unlimited audience. Ultimately, the goal of using the various channels is to attract as many actual bookings as possible at the lowest possible cost. This cost is related to a channel's reach, i.e., the potential number of guests that can be accessed, and the risk borne by different parties. For example, a room sold a year in advance to a tour operator might carry a much higher cost (discount provided/required) to an accommodation than one sold to an impulse walk-in customer for a same-day stay. However, the tour operator assumes the entire distribution risk from the accommodation and provides it with guaranteed revenue. In contrast, a walk-in customer might show up or might not. It is the accommodation that carries the entire risk in this case.

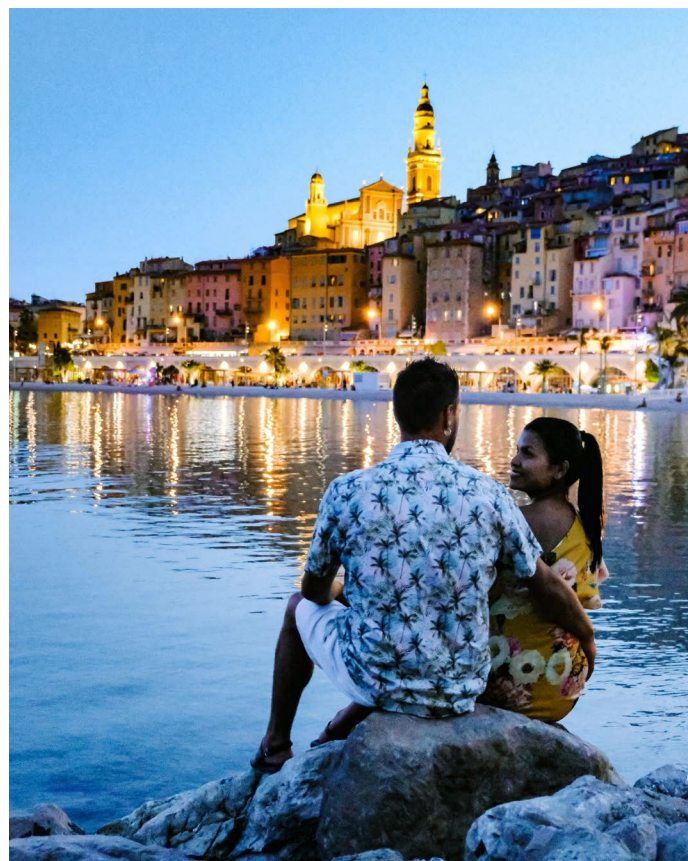
It is important to understand that an accommodation's costs are largely degree fixed, with limited opportunities to make short-term adjustments. Typically, an accommodation provider will require a certain level of guaranteed revenue and will charge higher prices during periods of anticipated high demand. This also means that during times of low demand, an accommodation might price above its variable cost (i.e., the cost of cleaning the room, check-in services, utilities) but below its average costs. Likewise, it might be willing to pay a higher customer acquisition cost for extra guests when an accommodation is below its desired level of occupancy, as long as there is a net positive contribution to profit. After all, nothing is worse than an empty room. This is why incremental bookings, in particular during off-peak periods, are so valuable to accommodations.

Smaller accommodations in particular may value distribution channels that are easy to use and do not require a lot of attention or upfront investment. For example, while an accommodation's social media account might come with very low external costs and provide valuable incremental bookings, it requires plenty of attention and technological savviness. Not every accommodation provider will be up to this task.

In general, the accommodation sector can market and sell its rooms directly or through a third party. For the latter, various alternatives can be considered. The level of control exercised over each channel differs, and the required costs/investments, the associated risks, and the potential effectiveness of the channel are different, too. As explained above, demand and supply patterns for each individual accommodation largely determine the trade-offs at different points in time. Along with the risk appetite of accommodation providers, this determines the pricing and distribution mix. It is typically not the case that an accommodation relies fully on only one channel. Instead, it is a combination of different channels to optimize yield:

- ▶ **Accommodations can sell their rooms directly to consumers through offline and online channels** like walk-in, phone, e-mail, own website or social media. In the event of a direct booking, accommodation providers need to facilitate all aspects related to a booking. For an independent accommodation, the extent to which investment is made in marketing, booking systems, payment options and communication is entirely up to the management. Yet, not only the booking opportunity needs to be created; an accommodation is also responsible for attracting consumers and organizing the marketing to drive awareness, e.g., through search engine advertising, where accommodations have to pay for every consumer that sees or clicks on an advertisement. The risk for this type of marketing remains entirely with the accommodation.
- ▶ **A risk-averse solution of securing a certain occupancy is to sell rooms in bulk to a bed bank or travel merchant** (e.g., tour operator). Both bed banks and travel merchants take a position by buying a certain share of capacity pre-season. Bed banks are B2B oriented and sell their capacity mainly to tour operators and (online) travel agents, whereas travel merchants focus on reselling the capacity directly to consumers. In both cases, accommodations realize a typically significant lower price than the standard rate: around 25%-35% below direct price point. The risk of filling these rooms is with the travel merchant or bed bank, whereas the accommodation has certainty on this income portion. The travel merchant oversees the full consumer engagement in terms of marketing, booking and payment.

- ▶ **An accommodation can also work with a travel agent to sell its rooms to consumers.** Physical travel agents can provide consumers with anything from a room-only to a completely planned holiday based on their specific wishes and can be found both on- and offline. It can be a local store catering to walk-in customers or a large organization with multiple local branches, providing services to both private and corporate clients. Travel agents' commissions (paid by the accommodation/capacity provider) are around 10% of the gross booking value. Most travel agents use a global distribution system to book hotels, flights or cars for their clients. The accommodation needs to be connected to such a system so the travel agents can view their rates and available rooms, and book through the system. Accommodations can connect to a single GDS, or use a GDS provider to connect multiple GDSs simultaneously. The accommodation needs to pay for access to the GDS, which can consist of a setup fee, a monthly fee, and a fixed or variable fee per reservation. Accommodations need to pay this on top of the around 10% commission paid to the travel agent. Based on a recent study performed by Infrata,⁵ the costs of a GDS are around an additional ~6% per booking. The total cost of distribution for this channel is therefore around 16% of the room night rate.



⁵ Source: Infrata, Hotel distribution cost, 2018

- ▶ **An OTA such as Booking.com, Expedia, Trip.com, or HRS provides consumers with a large selection of accommodations in a standardized format so that consumers can conveniently compare and book accommodation.** The online platform is a significant traffic generator through global on- and offline marketing without physical limitations in terms of sourcing. The reach of an accommodation in terms of potential new guests can therefore be considered truly global. In addition to marketing, OTAs provide accommodations with a range of additional services like analytics and insights, customer support and reservation systems. These services and the added value of OTAs to the accommodation sector will be further detailed in the next chapter. Both share distribution risk in that OTAs make upfront investments but are only remunerated when successfully facilitating a booking at an accommodation. OTAs receive a commission of around 15%-20% of the gross booking value for every successful booking.
- ▶ **Consumers are increasingly using metasearch websites** – specific price comparison platforms – mainly due to their perceived transparent overview of different booking options for the same accommodation. Historically, metasearch websites merely listed the price range from OTAs and direct channels, after which the consumer was redirected to the respective website to book. The accommodation or OTA pays the metasearch website on a per click basis, bidding for placement. However, in recent years metasearch website TripAdvisor and also Google have been introducing a direct booking option, thereby reducing the gap between OTAs and metasearch platforms.

One of the main challenges for smaller-sized accommodations as described earlier is creating scale through the direct channel. One aspect still to be mentioned in this regard is the option of an accommodation to become part of a larger group or alliance. In that case, systems and budgets can be leveraged across the group, therewith creating scale advantages. Moreover, a (global) brand creates a specific marketing effect toward consumers in terms of reach, trust and recognition. It needs to be noted, however, that becoming part of a branded chain is not a feasible option for all accommodations. The characteristics of their accommodation in terms of for example location, size, look and feel, might not match the proposition of a specific chain. However, in recent years there has been a strong trend toward more branded accommodations in Europe. Irrespective of the operating model (branded/independent), the type of information/sales channels available to accommodations is comparable across operation models.

What is an OTA and how does it add value for consumers?

An OTA is an online intermediary between consumers and providers of accommodation, transportation or any other travel-related product or service. This paper focuses on the lodging market, where an OTA is an online platform connecting consumers with accommodations in return for a commission for every successful booking.

OTAs serve as an important channel for searching and finding accommodation all over the world. Consumers do not have to pay or have an account to be able to use an OTA. Open to the public, this makes it an information platform from the consumer's perspective. OTAs provide a transparent overview of lodging options in terms of price, up-to-date availability and guest reviews. Reservation of an accommodation through an OTA can be done at any place any time, across all possible devices and often in the consumer's local language. Furthermore, OTAs typically provide 24/7 customer support in the local language. Moreover, OTAs provide a sense of trust and security regarding the credibility of an accommodation as well as security of payments.

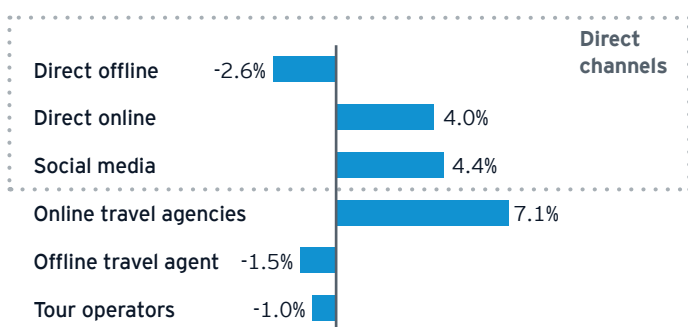
OTAs typically provide a range of adjacent value-added services to the accommodation sector, from reservation modules, payment infrastructure and customer service support to analytics and insights on market dynamics and customer preferences. These services are complementary and covered through the fee an accommodation pays (only) in the event of an actual reservation.

Metasearch platforms such as Trivago, Kayak and Google travel are sometimes confused with OTAs, as the former typically aggregate prices for one single accommodation from multiple vendors onto their platform. Historically, metasearch platforms never offered the possibility to book from their platform directly, but this functionality is increasingly being added.

Channel	Description	Reach	Cost	Capacity risk	Marketing risk
Direct sales	Sell nights directly to the customers through off- and online channels	Limited by marketing efforts	High investment in marketing and infrastructure	High level of risk to achieve full occupancy	Risk is fully carried by the accommodation
Travel merchant	Sell bulk of nights in advance to travel merchant, who sells to customers	Depends on the travel merchant; No impact on reach for other channels	Net rates are 25%-35% below direct price point	No risk and certain revenue	Risk is carried by the travel merchant
(Local) offline travel agent	Acquire customers through the (local) physical travel agent	Limited to audience that visit the travel agent; no impact on reach for other channels	~16% commission (incl. GDS fee) per successful booking	Low level of risk as commission is per successful booking; no guaranteed revenue	Risk is carried by the accommodation and to a limited extent by the offline travel agent
Online travel agent (OTA)	Acquire customers through listings on OTA platforms	Extensive reach to customers worldwide for bookings via OTA platform and direct	15%-20% commission per successful booking	Low level of risk as commission is per successful booking; no guaranteed revenue	Shared risk between OTA and accommodation
Price comparison websites	Compare prices of the various channels; Also has a booking option	Extensive reach to customers worldwide for bookings via price comparison website	Pay per click , bidding for placement	Mediocre level of risk as costs is per click; no guaranteed revenue	Risk is fully carried by the accommodation

Source: Desk research with EY-Parthenon research and interviews, 2020

Annual growth rates in absolute number of nights booked by channel for European small and medium-sized accommodations from 2016 to 2019
% CAGR '16-'19



Source: EY-Parthenon SME accommodation provider survey (N = 598); Eurostat, 2020

The market for overnight stays in small-sized lodgings across Europe has shown continuous growth in recent years. This growth has been driven by all channels, with the exception of offline direct. Direct offline bookings have essentially been substituted by online direct bookings. OTAs are the channel with the largest growth contribution for SME accommodations, approximating 7% absolute annual growth in the number of bookings across Europe. This is not surprising given the increasing number of international tourists coming to Europe and reflecting their role as global marketing channels.

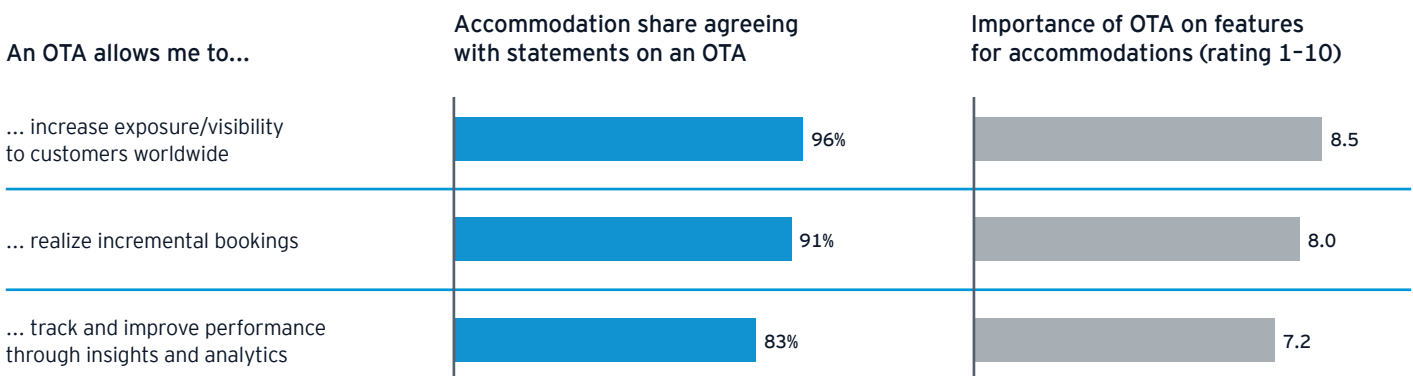
Chapter summary

- ▶ In general, the accommodation sector has a wide range of channels at hand to market and sell its rooms: directly or indirectly, through players such as travel merchants, local travel agents, OTAs and meta search engines
- ▶ Each of the channels has its pros and cons and differs in terms of reach, costs and flexibility
- ▶ An increasing number of bookings are (influenced and) made through the online channels, mostly at the expense of direct offline bookings

How OTAs add value:

OTAs provide support to smaller independent accommodations

OTAs such as Booking.com enable lodging to be searched and booked by consumers at any place and any time around the world. This has become crucial – travelers are becoming increasingly accustomed to arranging their travel online, and the share of guests arriving in Europe from other continents is growing. OTAs are particularly important for Europe's fragmented landscape of predominantly smaller, independent accommodations to remain visible – and thus competitive – vis-à-vis large and branded chain hotels that can invest significantly in brand and performance marketing to attract consumers from around the world. For the smaller accommodation providers, OTAs fulfill the role of a marketing and distribution channel, aimed at attracting (new) guests. When asked about the added value of using an OTA, accommodation providers say this marketing function is the main reason by far to use an OTA. 95% of accommodation providers confirm OTAs help in increasing visibility to consumers around the world, all year round; 91% state that being listed on an OTA actually results in additional bookings.



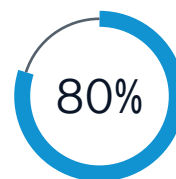
Source: EY-Parthenon SME hotelier survey, 2020 (N=598)

The OTA as a marketing tool generating (additional) bookings

OTAs generate bookings for their partners, the accommodation providers. They do so by creating a comprehensive platform with an underlying convenient infrastructure, both front-end for consumers and back-end for partners. The most important function of the OTA is to offer a wide variety of choice to consumers, generate traffic to the platform through (online) marketing activities, provide potential customers with an easy and transparent overview of the available options and prices, and to create confidence in making an online booking by acting as a trusted intermediary to both sides of the platform.

Generating traffic to the platform

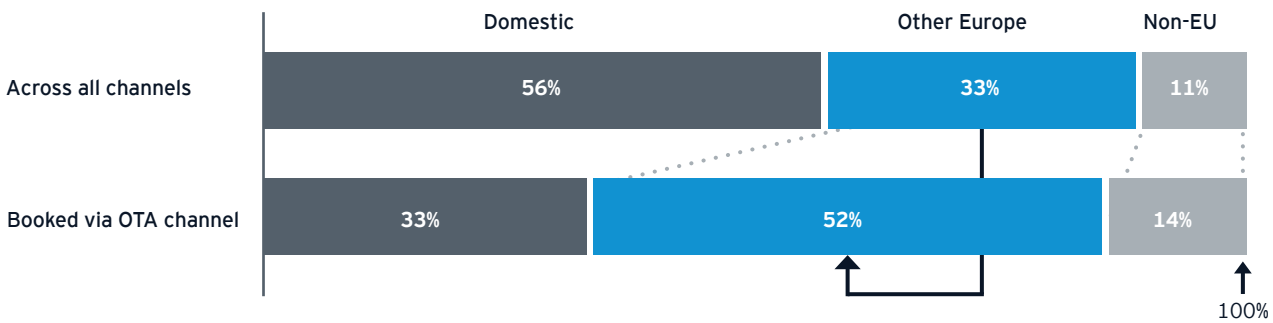
OTAs mainly attract traffic to their website through brand name and online marketing, e.g., through search engine optimization (SEO), search engine advertising (SEA), social media campaigns, affiliate marketing and email marketing. Their scale and global proposition enable OTAs to be accessed by practically anyone in need of finding and booking an accommodation. As such, it is able to easily find and target potential customers from outside an accommodation's "typical sourcing market" (typically the country where a small and medium-sized accommodation is located). This is analogous to other global distribution channels, e.g. tour operators. Analysis of the EY-Parthenon survey results and Booking.com's internal data show that approximately 70% of guests making use of an OTA originate from outside an accommodation's typical sourcing market.



of guests who use an OTA originate from outside an accommodation's typical sourcing market



Origination for European small- and medium-sized accommodations by channels, 2019



Source: EY-Parthenon SME accommodation provider survey (N=598); Internal Booking.com data, 2020 (N=5,500)

Providing the relevant content

OTAs provide consumers with an extensive and transparent overview of available accommodation options within their destination. Consumers can narrow down this offering and make it relevant to their specific needs. This can be done through extensive filtering of variables such as accommodation type, rating (stars), facilities on offer, customer reviews and – of course – price. Furthermore, the standardized presentation provides consumers with the opportunity to easily evaluate a wide and relevant range of specific accommodations within their selected region. OTAs allow consumers to navigate and compare relevant and available options and select the accommodation that best fits their particular needs.

Leveraging market insights

OTAs have deep insights into market dynamics and consumer behavior. They are able to follow the search behavior of its users, identifying correlations with other users, and deriving the importance a user attributes to a certain characteristic of an accommodation. Based on search and travel behavior of its (registered) users, an OTA can tailor results to present its best guess of the most relevant offerings. This leads to better matches, benefits conversion and thus makes marketing expenditures more efficient. Furthermore, an OTA has an in-depth view on the supply side, for example on the development of capacity and room rates over time. Based on these insights, OTAs give accommodation providers valuable advice on how they could potentially improve their yield by differentiating their pricing to improve occupancy and visibility or by increasing capacity offered through the OTA at times of high demand. Smaller-sized accommodations in particular often have a less differentiated pricing approach. They lack the capabilities and resources to pay continuous and active attention to this service.

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Every two weeks I have a meeting with the account manager of the OTA platform, in which I get useful insights. The insights give a holistic view across each of your chosen distribution channels. In a single view, you can see your hotel performance that combines pricing, demand, rating, occupancy, etc. It's also very easy to compare your performance to a set of competitors on variables such as cancellations, booking windows and pricing, and use this comparison to identify areas for improvement.

Medium-sized accommodation at tourist destination, the Netherlands

Being the trusted intermediary

From a marketing and consumer perspective, OTAs help in fostering trust, e.g., by providing confidence that an accommodation actually exists, processing payments through trusted systems, and offering reviews from other consumers that can provide a (more) objective view on the accommodation's quality and performance. These reviews and the given ratings play an important role for potential guests in the eventual selection of an accommodation. Furthermore, accommodation providers can use these reviews to improve their quality and service on criteria valued by customers. Independent accommodation providers confirm that their guests appreciate the confidence an OTA offers through guaranteeing the reservation and payment for their stay, and as such boost conversion. A study commissioned by the European Commission⁶ also concluded that the largest OTAs, such as Booking.com, have developed into trusted brands in which consumers are more willing to enter into a commercial relationship.

⁶ Source: London School of Economics and Political Science, Open Evidence, BDI Research, Behavioral study on advertising and marketing practices in travel booking websites and apps, 2020



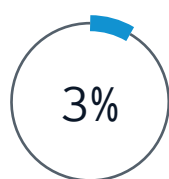
The trust OTA platforms provide is a big advantage for smaller accommodations. OTAs have a strong brand recognition among consumers worldwide. Guests are more willing to make a booking via a trusted platform that also facilitates the transaction. This especially holds for places they are not familiar with, or when they don't speak the local language. In addition, the guests get more confidence in (the existence of) the accommodation from the reviews from other guests.

Medium-sized holiday resort, Portugal

OTAs also provide trust to as a result of credit card confirmation at the moment of booking. OTAs are better able to verify and validate (future) payments, discouraging consumers from cancelling bookings. Accommodation providers indicated that the no-show rate is significantly lower for OTA bookings.

Generating (additional) bookings through the platform

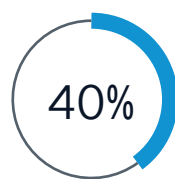
The above arguments on added value of OTAs does not only lead to bookings, it enables the unlocking of additional accommodation overnights. Hence, bookings placed at an OTA are not solely substitution of bookings previously made through other channels. Rather, a market expansion effect can be observed; it can be stated that OTAs grow the pie. In Europe, the number of overnight stays at smaller-sized lodgings has grown at 3% per year.⁷ OTAs have contributed significantly to this increase, driven by their global cost-effective reach and increased transparency of the market.



3% growth per annum in the number of overnight stays at smaller-sized accommodations in Europe

Generating direct bookings through the “billboard effect”

Apart from realizing (additional) bookings through an OTA, being listed on the platform typically also results in (more) direct bookings for an accommodation. This is what is called the “billboard effect”: consumers find an accommodation through the OTA, but eventually book their stay directly with the accommodation. In this case, the booking is a result of being listed on the OTA and the marketing efforts undertaken by the OTA to trigger a consumer's consideration. However, the accommodation does not have to pay a commission for these bookings as conversion occurs outside the OTA platform.



40% of direct bookings originate through an OTA platform

Our research shows that 40% of direct bookings originate from OTA platforms, which is slightly above the range of 5%-35% as found in a study by Anderson and Han.⁸ Interviews with accommodation providers also confirm that a significant share of their guests find their accommodation through an OTA, but eventually place the reservation at the accommodation directly. According to the accommodation providers, reasons for consumers to book direct broadly vary, including guests with special requests or (having the perception of being able) to get a better deal.



OTAs do an excellent job of realizing incremental bookings for accommodations. Apart from that, they also bring guests to the accommodation who “never” have booked directly. To clarify, there are millions of hotels on this earth. This number is narrowed down by selecting a location but then there are still too many. Most guests don't have a specific accommodation or brand in mind. These guests will use an OTA to search for an accommodation. As this is a very efficient channel that brings together all the accommodations and can easily filter by specific criteria. Once an accommodation is selected, a large share of the guests do visit the accommodation website or call the accommodation for special requests, questions, deals etc. and end up booking directly at the accommodation. So exposure on the OTA platform not only results in more bookings via the OTA platforms, but may also result in direct bookings.

Rural hotel, France

⁷ Source: Eurostat, “Tourism statistics – nights spent at tourist accommodation establishments,” 2005-2019

⁸ Source: Anderson and Han, The billboard effect: still alive and well, 2017

Flexibility of the OTA

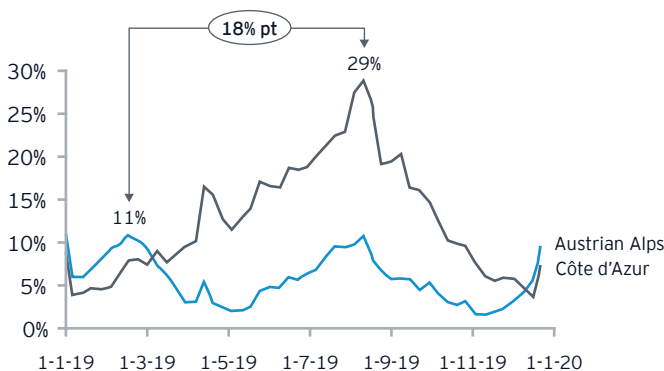
Besides the marketing role they fulfill, another important aspect of an OTA vis-à-vis alternative distribution channels is flexibility. OTAs provide a highly flexible and risk-free marketing channel, as accommodations do not have any obligations in terms of capacity or prices offered through the platform and are only charged a commission (or fee) in case of a successful booking (and stay). Accommodation providers have the flexibility to list and delist (any fraction of) their rooms at any time. OTAs hence provide scale without an accommodation having to make upfront investments (in technology, advertising and customer service, for example). The risk for these investments is borne by the OTA and recouped through the success-based commissions. Both the OTA and the accommodations share the marketing risk.

This flexibility allows accommodations to use an OTA how and whenever they want. The specific use case for an OTA and the extent to which it is used depends on specific characteristics of an accommodation and as mentioned before on the accommodation's risk appetite. To distinguish between the different types of accommodations, we look at four aspects – traffic, competition, seasonality and consumer captivity:

- ▶ **Traffic:** the amount of organic traffic an accommodation enjoys differs highly per location. Downtown London or a popular beach location have more traffic compared to a rural area. This has a significant impact on accommodation dynamics; accommodations at low traffic locations need to put in an extra effort to attract guests.
- ▶ **Competition:** the number of other accommodations available within a given “catchment area” impacts price and occupancy. Lodgings that operate in an environment characterized by fierce competition need to make additional investments to stand out in the crowd, attract guests and stay competitive.
- ▶ **Seasonality:** a distinction can be made between accommodations that have a relatively constant occupancy throughout the year (e.g., a city center hotel), and accommodations that have high peaks in demand in certain periods of the year (e.g., hotels in skiing areas). These shifting demand patterns throughout the year influence the pricing and marketing strategy accommodations need to adopt for each season.
- ▶ **Consumer captivity:** differences can be seen between accommodations and to which extent they have a loyal customer base. The level to which consumers revisit the accommodation influences the required marketing effort: if many guests return regularly (e.g., for the annual skiing season), marketing efforts can be diminished.

Case studies

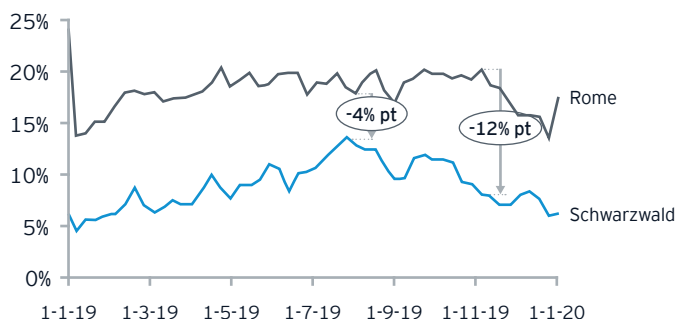
Average weekly occupancy booked through Booking.com, Austrian Alps and Côte d’Azur, 2019



Clear difference in OTA usage by holiday resort versus ski resort

Both the Côte d’Azur and Austrian Alps are popular tourist locations. They face high levels of competition and are to a large extent dependent on non-domestic guests. However, OTA usage is considerably lower in the Austrian Alps with 11% occupancy vs. 29% occupancy through an OTA in their respective peak months. Ski resorts are known for their high share of repeat customers and are a main contributor to such distinctions.

Average occupancy booked through Booking.com, Rome and Schwarzwald, 2019

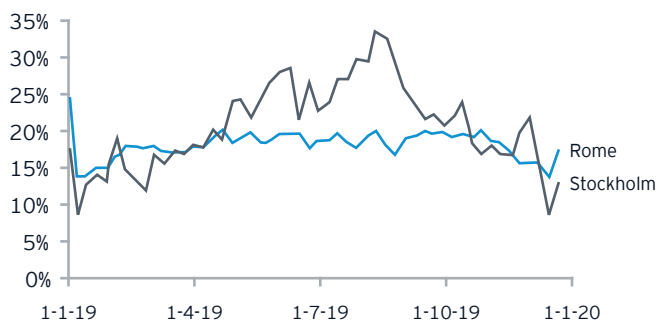


High competition faced by a city-center hotel vs. rural hotel

The obvious differences between a city-center hotel in Rome and rural hotel in Schwarzwald are reflected in the usage of an OTA platform. Guests visiting a rural hotel are – to a large extent – domestic travelers, with a clear trip purpose of enjoying the scenery or undertaking specific activities. Guests visiting Rome are mainly international guests. Moreover, the availability of accommodations increases competition levels between them. The rise in transparency between options increase the role and cost-effectiveness of OTAs as distribution channel.

Average occupancy booked through Booking.com by locations and hotel type, 2019

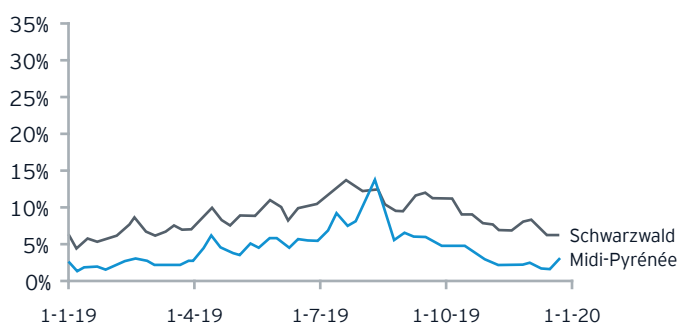
Accommodations at tourist destinations



Significant differences between individual accommodations

Even though similarities can be observed between accommodations at matching location types, differences in OTA usage still occur. The share of OTAs is higher in the summer for a city-center hotel in Stockholm compared to city-center hotels in Rome. The share of OTAs is constantly higher for a rural hotel in Schwarzwald compared to a rural hotel in the Midi-Pyrénées, with the exception of August. Various factors influence channel mix and all accommodations are searching for their optimal and cost-effective distribution mix.

Rural accommodations



Cost effectiveness of the various distribution channels

As highlighted in the previous section, the flexible risk-free use of an OTA allows accommodation providers to optimize their distribution mix, tailored to local supply and demand dynamics and other specific needs. The following section describes how accommodations optimize their distribution mix to maximize yield, and why an OTA is an attractive channel to small and medium-sized independent accommodation providers to achieve this.

Achieving the optimal distribution mix

Ultimately, it comes down to attracting the most consumers at the lowest possible cost, thereby boosting an accommodation's profitability. To evaluate the attractiveness of the different distribution models, two elements need to be compared: namely, the yield difference between specific channels versus the cost of acquisition. However, such a clear-cut comparison is challenging to make. Hidden costs and broader marketing efforts hamper a clear entanglement of each individual channel.



The customer acquisition costs of each distribution channel

In return for generating bookings, OTAs typically charge a commission of around 15% to 20%. Local travel agents typically charge a commission of around 10%, and require GDS access that costs around 6% per booking.⁹ However, these agents typically do not match the reach of an OTA and hence do not realize the same number of (incremental) bookings. Moreover, the added value services for accommodations (e.g., analytics) and the billboard effect are typically lacking versus OTAs. Travel merchants and tour operators generally demand a discount of approximately 25%-35%¹⁰ of the listed room rate. These players buy overnights in bulk well in advance. As such, accommodations need to concede on flexibility, yet receive a guaranteed income (although at reduced rates). However, these tour operators typically focus on larger-sized accommodations and hence are less of an option for most smaller-sized accommodations.



Direct sales and OTA platforms are our main distribution channels. We are not an attractive accommodation to tour operators or travel merchants, as we cannot facilitate large groups with buses. A local travel agent would sell all rooms for the whole season for a very low price. That will never be profitable, so I do not perceive that as a feasible option. In addition, you would have no idea at what price travel agents sell your rooms to the customers. OTAs and direct are therefore the most feasible and efficient channels for our accommodation.

Smaller-sized holiday resort, Spain

Apart from the various intermediaries, accommodations can generate direct bookings. In practice, it appears challenging for (especially smaller) accommodations to generate the required occupancy rates through direct bookings at efficient cost levels. Generating direct traffic requires substantial marketing efforts to attract new customers through online marketing, as well as building a relationship with repeat customers (through email marketing and loyalty schemes, for example). One way to do this is through an alliance or chain (see text frame); yet, even then, there is no full reliance on direct bookings and this still comes at a significant cost and loss of control.

⁹ Source: Infrata, hotel distribution cost, 2018

¹⁰ Source: EY-Parthenon survey, Infrata, hotel distribution cost, 2018

Joining a hotel chain or alliance

While direct marketing effort is typically not cost-effective for a smaller to medium sized, independent accommodation – mainly due to a lack of scale – becoming part of a chain could help to overcome this. In terms of marketing, these large (chain) hotels typically have the size, capability and brand name to effectively run their own marketing campaigns and loyalty programs aimed at reaching consumers directly. Hotels that are part of a chain thereby typically build upon internationally recognized brands, through which they offer a (large) network of destinations to their guests. As their “repeat customers” have a higher customer lifetime value, investments in direct marketing typically pay off for these chains, in contrast to the smaller hotels, which cannot offer a long(er) term consumer relationship. In addition, these chains offer a range of additional (shared) services through which scale is leveraged and from which its member accommodations benefit. In return, these chains typically demand a commission of 5%¹¹ on every stay, which is on top of the commission or fee payable to an intermediary in the case of indirect bookings. Furthermore, capturing more loyal consumers for a chain also comes at a cost, reflected in significantly lower ADR rates. Finally, accommodation owners typically pay a franchise fee for being part of the chain or alliance. While in theory, accommodations could opt to join a chain (branded or private label), in practice this is not attainable for many of the smaller and medium-sized accommodations. The reason for this is that these accommodations might not fit within the chain’s proposition (in terms of facilities, size or location). For most chains, their properties mainly consist of larger-sized hotels.

Why an OTA is the most cost-effective distribution channel

In deciding on the optimal distribution mix, accommodation providers weigh the acquisition costs of customers in a certain channel vs. the (incremental) bookings and rates realized through these channels. At least, to the extent they have clear visibility on these KPIs and otherwise on their experience and gut feeling. The chosen strategy often reflects the accommodation’s local supply and demand dynamics as well as the accommodation’s preference on how (actively) to pursue its own marketing activities.

The optimal distribution mix should eventually deliver the highest net yield for the accommodation, i.e., the yield per room corrected for the distribution costs or the customer acquisition costs, known as the net revenue per available room (net revpar):

Net revpar =

occupancy × average daily rate (ADR) – distribution costs

Where:

Occupancy = number of rooms sold/number of rooms available

ADR = revenue from bookings/number of rooms sold

Distribution costs = customer acquisition costs (e.g., direct marketing, commissions)

Hence, the attractiveness of a distribution channel comes down to weighing the effect on occupancy and ADR versus its allocated costs.

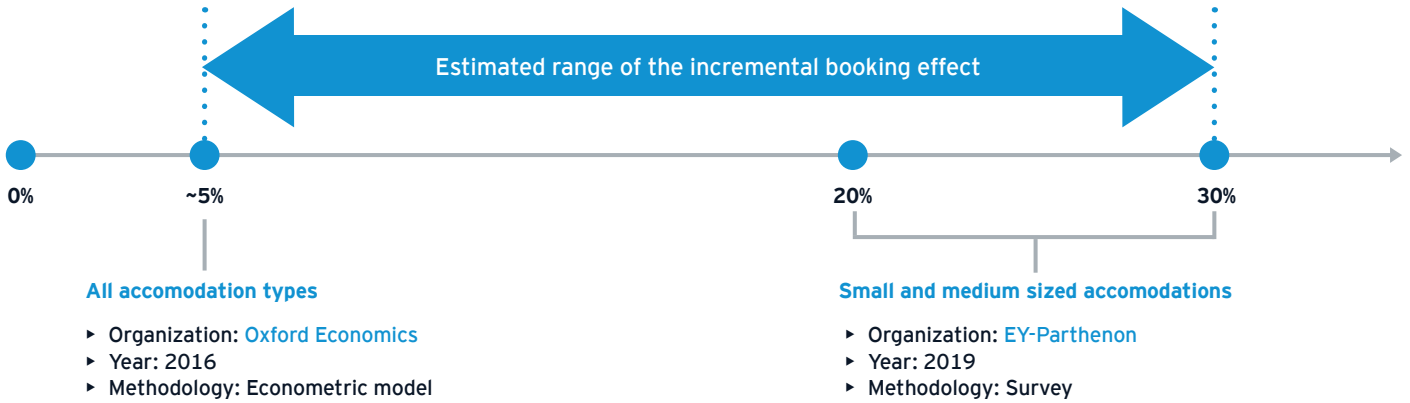
Occupancy

Bookings generated through an OTA are to a certain extent incremental. Primary research shows accommodations agree that OTAs generate additional bookings and increase the market for overnight stays. Accommodations furthermore indicate they would lose a significant share of their bookings without an OTA (without any offsetting marketing activity that might not be available at comparable cost). However, quantifying this impact and imagining a hypothetical world without the platforms of OTAs is a challenge. A recent study performed by Oxford Economics¹² indicates the incremental bookings realized through OTAs reflect ~5% of the total market. This is based on all hotel types and all bookings and is therewith considered to be the lower boundary. The incremental level of OTA bookings for smaller-sized accommodations is greater than for larger-sized accommodations and chains. Our research indicates this figure to be in the range of 20%-30% and is endorsed by various accommodation providers. The precise impact might lie somewhere in between these two figures, but it is clearly significant.

¹¹ Source: Infrata, hotel distribution cost, 2018

¹² Source: Tourism economics, the economic impact of online travel agencies in EU member states and Switzerland, 2019

Estimate of the incremental effect of OTAs on the occupancy of accommodations, Europe



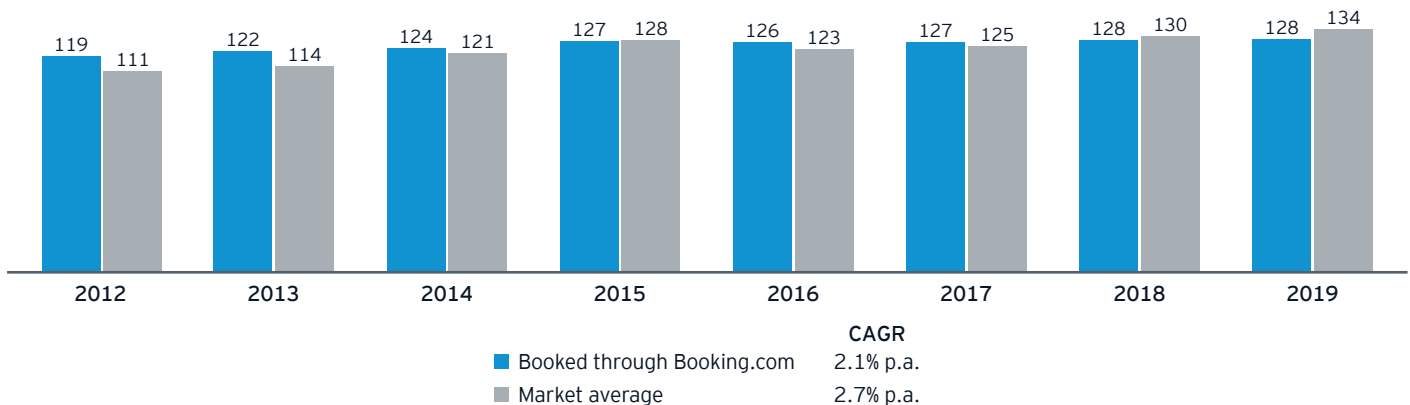
Source: EY-Parthenon SME accommodation provider survey, 2020 (N=577); Oxford Economics report; EY-Parthenon analysis, 2020

ADR

The ADR realized through an OTA is typically fully in line with an accommodation's direct channel. This is partly a result of price parity policies agreed between accommodation providers and OTAs. Furthermore, transparency and competition in the market make it challenging to create significant differences between these strong channels. It can therefore be concluded that the ADR an accommodation realizes is not, or only to a limited extent, affected by its specific distribution mix.

Our research also shows that the ADR of bookings through an OTA has developed positively in recent years and is in line with overall market rates:

Average daily room rate development, 2012-2019 (€)



Source: Tourism economics; Booking.com; EY-Parthenon analysis, 2020

Furthermore, it is worth mentioning that incremental bookings do not merely generate additional room revenues, but also ancillary revenues (e.g., food and beverage, activities, parking). Such revenues are typically less relevant for smaller-sized accommodations in comparison to larger-sized accommodations, as an effect of less extensive service offerings. Still, data shows that an average hotel can capture ancillary revenues of 12%-15% of overnight revenue.

12%-15%
 of a hotel's average booking revenues can additionally be captured through ancillary services

¹¹ Source: Infrata, hotel distribution cost, 2018

Distribution costs

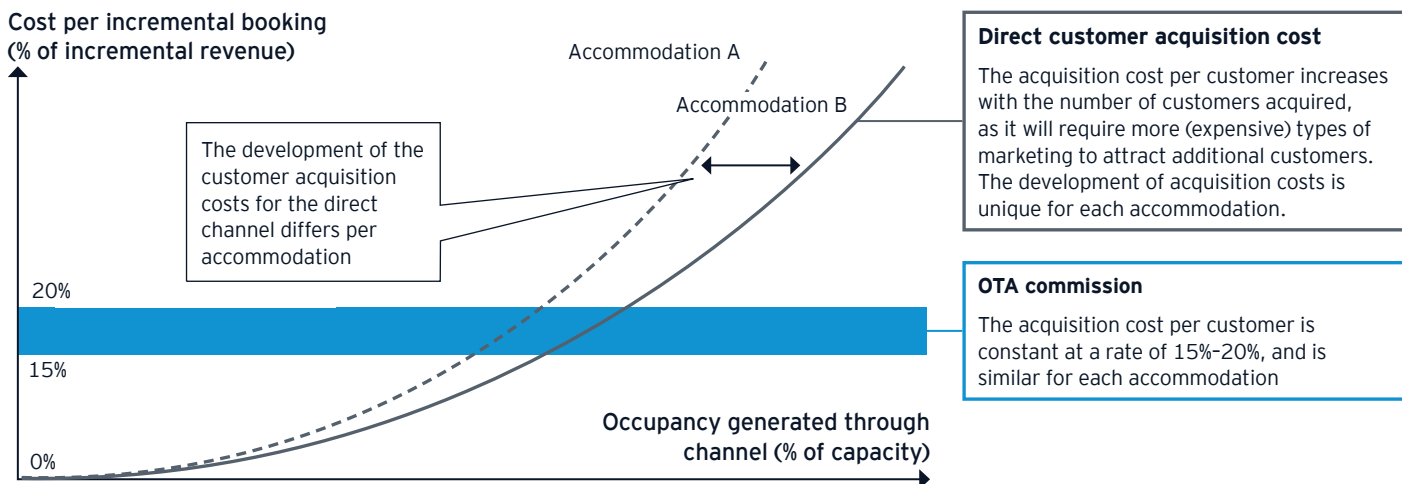
The customer acquisition costs for the OTA channel amount to approximately 15%-20% per night sold. It is important to note that accommodation providers only pay these commissions over nights sold through the OTA platform. As stated in section 3.1, OTAs also generate more direct bookings as a result of being listed by the OTA (billboard effect), for which the accommodation does not have to pay any fee or commission. It could thus be concluded that the actual commission per night generated through the OTA – either directly or indirectly – is substantially lower (see p. 21).

Based on a detailed study conducted by Infrata¹³ on the economics of distribution, a “branded chain hotel” has c. 4% pt lower distribution costs for its direct bookings

versus the OTA commission. However, independent accommodations are likely to have considerably higher costs. On the one hand, they lack scale advantages in (online) marketing, but they most likely also reach lower conversion rates for these marketing efforts. Hence, we would assume that for a smaller, independent accommodation, the costs for direct distribution are at least as high as that of an OTA.

To conclude, given the significant incremental booking effect, the (stable to) growing ADRs through this channel, and the comparable (or even lower) distribution costs, OTAs on average have a positive impact on the bottom line of smaller accommodation providers. Still, specific moments, timings and cases may well cause these economics to shift.

Development of the cost acquisition by channel, Direct vs. OTA



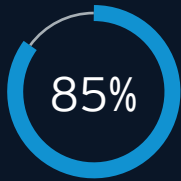
¹³ Source: Infrate, Hotel distribution cost, 2018

How the adjacent value-added services of an OTA allow smaller accommodation providers to efficiently run their business

OTAs not only direct traffic to an accommodation, but also provide accommodations with the infrastructure to handle reservations, process payments and offer customer support.

Reservation handling

Accommodation providers have access to an online environment in which they decide on variables such as capacity on offer, room rates and cancellation terms. Reservations are directly processed into the system, and consumers typically receive an instant confirmation of their booking.



of the accommodations providers find the reservation engine of the OTA platform useful to keep availability up to date on every channel and state that the real-time booking option is of great value for guests.

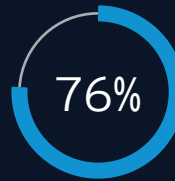
“

We do not have a mobile application for our accommodation, but we have many travelers that book last-minute while they are already in the city. The OTA apps enable our guests to easily book real-time. This is immediately visible in our reservation system.

Smaller-sized hotel at tourist destination, Belgium

Processing and guaranteeing payments

OTAs provide accommodation providers with a payment infrastructure through which most payment methods are accepted and through which payment are generally guaranteed for accommodation providers, which also strongly facilitates trust in both directions.



of accommodation providers state that prepayment and preauthorization option of an OTA platform helps to reduce cancellations/no-shows and secures (part of) the revenue.

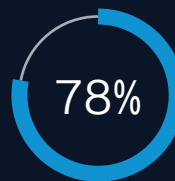
“

The OTA platforms have a multilingual website and customer service that enables guests to read and communicate in their own language. I believe this lowers the barrier for guests to book abroad.

Medium-sized holiday resort, Portugal

Customer service

OTAs typically also provide (first line) customer support. Booking.com's customer service, for example, is available 24/7 in 42 languages. Furthermore, its communication infrastructure allows accommodations and guests to communicate with one another in their native language, through automatically translated messages in real time.



of the accommodations providers think that the 24/7 multi-language customer service of the OTA platform is of added value/benefit to their guests.

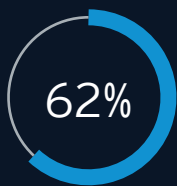
“

The OTAs guarantee the payments, which is a benefit for us as well as the guests. For our accommodation, the virtual credit card of the OTA significantly reduced no-shows.

Medium-sized holiday resort, Portugal

Effect of reducing effort and resources needed for operations

OTAs provide a range of services that reduce the need for in-house systems or reduce costs by improving the efficiency of business. Three in five (62%) of accommodation providers agree that OTAs help them reduce their operational costs. However, some costs cannot be fully eliminated, since accommodations still need them for those bookings resulting from other channels.



of the accommodations providers recognize that OTAs enable them to reduce their own operations.

“

You post your accommodation on multiple channels to reach out to an audience as wide as possible. In the end, you want consumers to book directly, given this channel does not involve commissions. For this, you need an up-to-date website, a convenient booking engine, a reliable payment system and an easily accessible customer service. All of this infrastructure is needed alongside other channels. Bottom line, if you are using an OTA, you might reduce your spending on sales and marketing; however, it does not enable you to significantly reduce other infrastructure spending.

Medium-sized holiday resort, Portugal



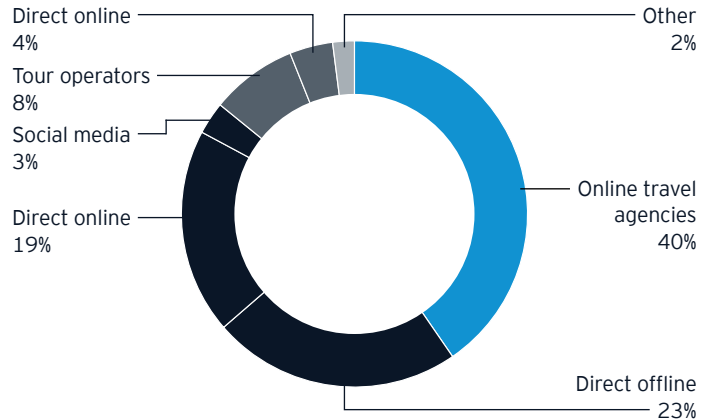
OTAs play an important role in the distribution mix for smaller, independent accommodation providers

Mix and relevance of OTAs to nurture independent SME business

As a flexible marketing channel, the clearly recognized added value of OTAs makes them an important distribution option for independent SMEs. On average, ~40% of bookings in this focus group come (directly) from OTAs. The spread of this share between different accommodation types and among individual accommodations shows there is plenty of variety in the channel mix. Some accommodations rely on OTAs for less than 20% of their bookings, while others achieve a much higher percentage of bookings through this channel. This shows that accommodations can choose how to market their rooms and make a conscious decision on how to achieve their best distribution mix. Most accommodations indicate that the cost effectiveness of OTA bookings cannot easily be matched by other channels. Even though commissions are often seen as high, accommodations indicate they would not to be able to realize an equal number of bookings when redirecting these commission costs to marketing on their own direct channels.



Weighted share of nights booked by channel for European small- and medium-sized accommodations in 2019



Source: EY-Parthenon SME accommodation provider survey 2020 (N=598)

“ OTA platforms account for around 50%–60% of our bookings; however, this has been a conscious decision as it is the most cost-efficient channel for us.

Rural accommodation, Portugal

“ We have found the right mix between the OTA platforms in terms of costs and commissions. OTAs are one of our main distribution channels; that is the most optimal way of generating bookings for us.

Smaller-sized accommodation at tourist destination, Italy

“ We choose to do a large part of our bookings via Booking.com, as that is part of our distribution strategy. We believe OTAs are the most efficient channel for us.

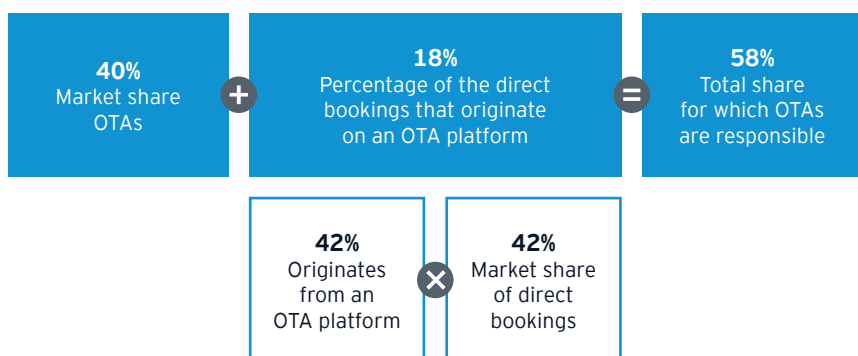
Medium-sized accommodation at tourist destination, France

Contribution of the billboard effect

As previously highlighted, OTAs not only generate bookings through the platform itself, but also contribute to bookings placed directly at the accommodation (the “billboard effect”). Our research shows that 41% of direct bookings at smaller lodgings originate from customers finding the accommodation on an OTA platform. As such, OTAs contribute an additional 15%-20% of bookings to the accommodation. These are bookings for which accommodation providers do not pay a commission to the OTA. Hence, the effective commission rate would be more in the range of 10%-13%.

10%-13%
is the effective commission of the OTA if the billboard effect is taken into account

Total share of nights influenced and driven by OTAs for European smaller-sized accommodations in 2019



Source: EY-Parthenon SME accommodation provider survey, 2020 (N=598)

Chapter summary

- ▶ OTAs provide smaller, independent accommodations with a strong marketing instrument to gain (additional) bookings. The platform can be used in a fully flexible manner based on an accommodation’s needs, without upfront investment or risks related to uploaded capacity
- ▶ OTAs in general have a positive impact on an accommodation’s bottom line, given the significant incremental booking effect, the (stable to) growing ADRs, and the comparable or even lower distribution costs
- ▶ As a result of these attractive characteristics to smaller, independent accommodation providers, OTAs play an important role in the distribution mix

The way ahead:

The evolving European travel market and what it means for the future of distribution

The European travel market has shown steady growth since the financial crisis earlier this century, with international tourist arrivals growing from approximately 350 million in 2010 to nearly 520 million in 2019. This growth is to a large extent driven by inter-regional arrivals (i.e., travelers from outside Europe), mainly from the Americas and Asia, powered by a growing middle class and decreasing airfares.

The growth in travel has fueled growth on the supply side: bed capacity grew by 15% in the period 2010–2019. A large part of this growth in capacity is captured by larger, branded hotels. Smaller, independent accommodations have grown at a more moderate pace. The emergence of Airbnb has also enabled private lodging to capture a significant part of the growth in overnights.

The COVID-19 pandemic impact

The COVID-19 pandemic has severely impacted travel globally. After a period of tight travel restrictions across Europe during Q1/Q2 2020, in which air travel and hotel overnights plummeted, travel has recovered only to a small extent as restrictions are still keeping Europe in a tight grip regarding travel and leisure. There has been a strong shift toward more short-haul and domestic tourism, which does not compensate international movements at all. The short-term outlook for the travel market is uncertain, given the prolongation of travel restrictions and (partial) lockdowns, more cautious consumer behavior in the wake of the healthcare crisis, and more generally the anticipated economic headwind in years to come.

Changing dynamics within hotel distribution

With the changing dynamics on both the supply and demand side, competition for consumers is intensifying among accommodation providers and distribution channels. This holds true in general and more specifically for larger, branded hotels, smaller independent accommodations, and the (emerging) private lodgings.

For accommodations, effective marketing is crucial to generate sufficient bookings. With consumers increasingly arranging their travel online, as well as the increasing tech savviness of accommodation providers, the focus of accommodation's marketing efforts is continuing to shift to the online channels.

For smaller accommodations specifically, this research has made the case that OTAs provide the most cost-effective channel (in the online arena), yielding the highest profits. Moreover, the OTA channel appears to be the only feasible online channel for these independent accommodation providers to hold their ground in a market where competition from large chains is on the rise. As a result, the use of OTAs by smaller lodgings is expected to increase, in line with the sector's view in the near future.

Industry convergence and what it means for the accommodation sector

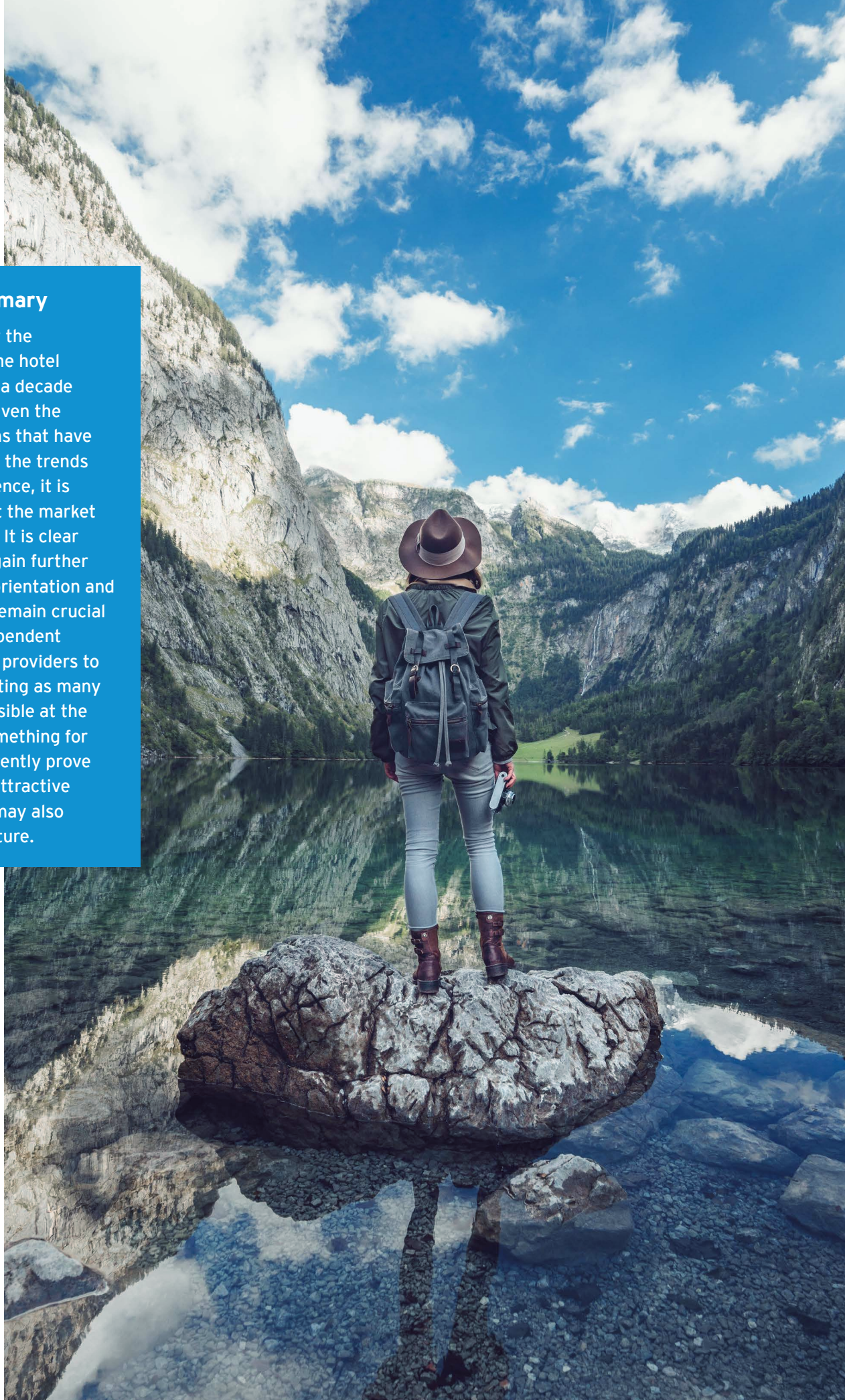
The industry expectation is that in the near future the different elements of a trip – transportation, lodging and activities – will become more integrated. There is clear consumer demand for individual trips to be built in a more connected way. Arriving at a foreign destination, consumers value the option of being picked up by a prearranged driver and taken to the booked accommodation.

This trend will affect accommodations in two ways. One, it is expected that this convergence will result in new entries to the accommodation distribution market. While OTAs will try to expand beyond lodging, others will try to expand beyond their current core service, e.g., transportation. This will give SMEs more choice with whom to join forces. It will also require even more attention for the various options available. Already today, around two-thirds of the accommodation providers work with another set of intermediaries, so-called connectivity providers, to help them distribute their rooms across different OTAs and other digital channels with one digital interface.

The second effect is that there will likely be fewer bookings for individual accommodations. Instead, consumers will purchase packages that include the desired elements – flight, accommodation and dinner at a specific restaurant, for example. This is the modern-day version of a travel package, also known as “dynamic packaging.” Chains will be able to offer these packages themselves through partnerships with airlines, local activity operators, etc. For independent accommodations to stay competitive, they will need partners such as OTAs that offer them access to these bundles.

Chapter summary

It is unclear how the distribution of the hotel market will look a decade from now. But given the major disruptions that have taken place, and the trends toward convergence, it is highly likely that the market will be different. It is clear that online will gain further ground in both orientation and booking. It will remain crucial for smaller independent accommodation providers to focus on generating as many bookings as possible at the lowest price, something for which OTAs currently prove to be the most attractive platform – and may also remain in the future.



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Glossary

ADR: average daily rate realized by an accommodation over its occupied rooms

Ancillary revenues: other revenues besides room rates, like food and beverages

Bed bank: Business-to-business oriented wholesaler of overnights

Billboard effect: consumers find an accommodation on an OTA but book directly

GDS: global distribution system used to sell rooms to, for example, travel agents

Meta search websites: aggregators that enable consumers to compare accommodations listed on different websites

Net RevPar: net revenue per available room: metric for profitability of an accommodation

OTA: Online travel agency: a website where consumers can compare, and book listed accommodations

SEA: search engine advertising

SEO: search engine optimization

SME: small and medium-sized enterprises

Tour operators: providers of packaged vacations, mostly operating with travel merchant model

Travel merchant: b2c oriented wholesaler of overnights

Yield: revenue generated by an accommodation



Want to know more?

EY-Parthenon B.V. professionals are happy to provide more information about our experience in each of these areas and look forward to supporting management teams and investors in addressing the strategic challenges and opportunities within the hospitality sector.



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EYG No. 001696-21Gbl

CSG No. 2101-3680435

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