

HOTEL yearbook 2011

What to expect in the year ahead



Four Seasons CEO Kathleen Taylor
on the evolving concept of luxury

The post-crisis outlook in key markets:
20 exclusive situation reports from Horwath HTL

Best Western CEO David Kong describes the key issues
US hoteliers will have to tackle in 2011

The industry's most progressive approach to operations:
our interview with citizenM's Michael Levie

Plus ideas, expectations and insights for 2011
from the Chief Executives of 8 hotel groups

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ECOLE HÔTELIÈRE DE LAUSANNE

The Ecole hôtelière de Lausanne (EHL) is the co-publisher of The Hotel Yearbook. As the oldest Hotel School in the world, EHL provides university education to students with talent and ambition, who are aiming for careers at the forefront of the international hospitality industry. Dedicated to preparing tomorrow's executives to the highest possible level, EHL regularly adapts the contents of its three academic programs to reflect the latest technologies and trends in the marketplace. Since its founding in 1893, the Ecole hôtelière de Lausanne has developed more than 25'000 executives for the hospitality industry, providing it today with an invaluable network of contacts for all the members of the EHL community. Some 1'800 students from over 90 different countries are currently enjoying the unique and enriching environment of the Ecole hôtelière de Lausanne.



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WATG

Over the course of the last six decades, WATG has become the world's leading design consultant for the hospitality industry. Having worked in 160 countries and territories across six continents, WATG has designed more great hotels and resorts than any other firm on the planet. Many of WATG's projects have become international landmarks, renowned not only for their design and sense of place but also for their bottom-line success.

Opaque selling in 2011

ALTHOUGH IT HAS BEEN AROUND FOR MORE THAN TEN YEARS, 2011 MAY BE THE YEAR THAT HOTELS BEGIN TO TRULY EMBRACE THE CONCEPT OF « OPAQUE SELLING » – I.E. SELLING ROOMS ONLINE IN A WAY THAT THE GUEST DOES NOT KNOW WHAT HOTEL HE HAS BOOKED UNTIL AFTER HE'S MADE AND PAID FOR THE BOOKING. PROF. **CHRIS ANDERSON** OF THE **CORNELL UNIVERSITY SCHOOL OF HOTEL ADMINISTRATION** EXPLAINS HOW IT WORKS – AND WHY IT MAKES SENSE.

The opaque selling of hotels has gained considerable traction in the last year – most notably with new offerings from online travel agents (OTAs) Expedia and Travelocity accompanying the established positions of Hotwire and Priceline.com. Opaque selling is a method for hotels to sell their differentiated product at higher prices to brand-loyal consumers while simultaneously selling a more commoditized version to brand-agnostic consumers at lower prices. Each of the four current opaque sellers offers its own variant of opaque selling.

Hotwire's opaque product allows the consumer to choose from a series of service providers within a market. The market is divided into series of geographic areas with each of these areas potentially having a hotel available at each star level. While consumers see and can choose a 4-star hotel in Times Square, they are not aware of the actual hotel (its name and location) until after they have paid for their non-refundable stay.

Expedia's opaque offering is similar to Hotwire's and is actually powered by Hotwire (an Expedia company), with access to the same inventory. The main difference to Hotwire is that the Expedia opaque listings are intermixed with regular full information retail listings with slightly less information (than Hotwire) about the property disclosed. For example, no hotel amenities are listed.

In 2011, we should see further differentiation by the opaque OTAs as they compete for inventory from suppliers as the economic environment improves

retail listings. Unlike Hotwire (and Expedia), Travelocity lists all available opaque hotels, whereas Hotwire only lists one opaque hotel per star class in each area. Similar to Expedia, Travelocity offers limited information about the opaque listing, other than its price, star level, general amenities and general area.

Uniquely different from the posted price opaque offerings of Hotwire, Expedia and Travelocity is the bidding model offered by Priceline. On Priceline, consumers submit offers for star and region combinations, versus selecting from posted prices.

Each of these opaque intermediaries offers unique opportunities to the service provider and has the opportunity to increase RevPAR during periods of softer demand. Expedia has seen positive consumer reaction to its introduction of opaque listings within its retail listings, specifically the introduction of Expedia's unpublished rate product has increased conversion rates at Expedia while simultaneously increasing the ADR of opaque purchase over those transacted at Hotwire (most likely as the opaque booking curve is pushed further out as consumers are more cognizant of opaque products).

Perhaps the biggest recent change in opaque selling has been facilitated by Priceline's iPhone app called « Negotiator » (as well as its recently released Android version). The Negotiator is one of the best travel-related apps on the market today, as it truly takes advantage of the GPS capabilities of today's smartphones, allowing consumers to make very well informed in-market purchase decisions (both opaque as well as full information retail). As a result of this functionality, the Negotiator has a very steep booking curve, with most transactions occurring on the day of arrival, from consumers within a few miles of the property. While this may reduce revenue management's ability to react to bookings (owing to their lateness of arrival), it creates a channel to reach price-conscious in-market consumers. While the other OTAs have mobile versions of their offerings, they are not fully integrated apps, i.e. not directly using the location characteristics of the phone to generate targeted offers. Undoubtedly, these apps are not far off.

Similar to Expedia, Travelocity offers an opaque product called TopSecret Hotels with the opaque listings intermixed with the

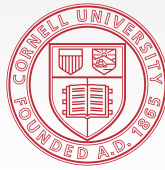


Unlike our last economic downturn, the current environment will have sustained periods of deal-seeking consumers who research prices considerably prior to their purchase decisions. This deal-seeking behavior limits a property's ability to reach price-conscious consumers without diluting revenues from brand-loyal consumers willing to pay more. Such is the upside of the opaque OTA. While opaque selling reduces ADR, as discounts off regular prices often reach 50%, given the fact that it is targeted at price-conscious consumers in a hidden fashion, it allows simultaneous selling to brand-loyals (at higher prices), and is thus RevPAR-accretive.

I continue to encourage hotels to use opaque surgically and resist the temptation to make knee-jerk decisions such as focusing only on ADR when what really counts is RevPAR. When a hotel is going to have empty rooms, opaque is one of the few remaining safe and effective ways to discount and fill rooms generating incremental revenues vs. diluting retail revenues.

While it takes effort and research, hotels moving in this direction in 2011 should really understand the opaque channel they are participating in and what rates they are providing it. Not all opaque channels are the same. Priceline's «Name Your Own Price» (NYOP) has unique supplier-friendly features enabling hotels to book rates other than their lowest. Hotwire's model and its unique display (sort) model ensure that consumers see the best value properties within the first few lines displayed at the OTA. On the other hand, Travelocity's TopSecret and Priceline's NYOP provide limited property-specific data, further increasing the opacity (arguably eliminating dilution) of these channels. In 2011, we should see further differentiation by the opaque OTAs as they compete for inventory from suppliers as the economic environment improves. The recent addition of the bed type option at Hotwire (i.e. the ability for consumers to pay a premium to determine room type) illustrates ways in which the opaque OTAs attempt to increase property ADRs while simultaneously being more attractive to consumers. Suppliers should look forward to the opaque OTAs providing increased access to data and improved reporting, facilitating their strategic use of these important channels.

Lastly, it is critical to realize that opaque selling represents a small fraction of lodging demand (1-2%), even though it has been around as a booking channel since 1998. As such, properties should not fear that participation in these channels is going to train consumers to be brand-agnostic deal-seekers, but rather view opaque OTAs as a channel to reach a portion of the deal-seekers that they would not otherwise reach, unless they were the cheapest retail listing in their market – or worse: they were pricing into properties of lower star ratings. ■



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