

h2c Research

h2c's Global Hospitality Distribution Study

February 2023

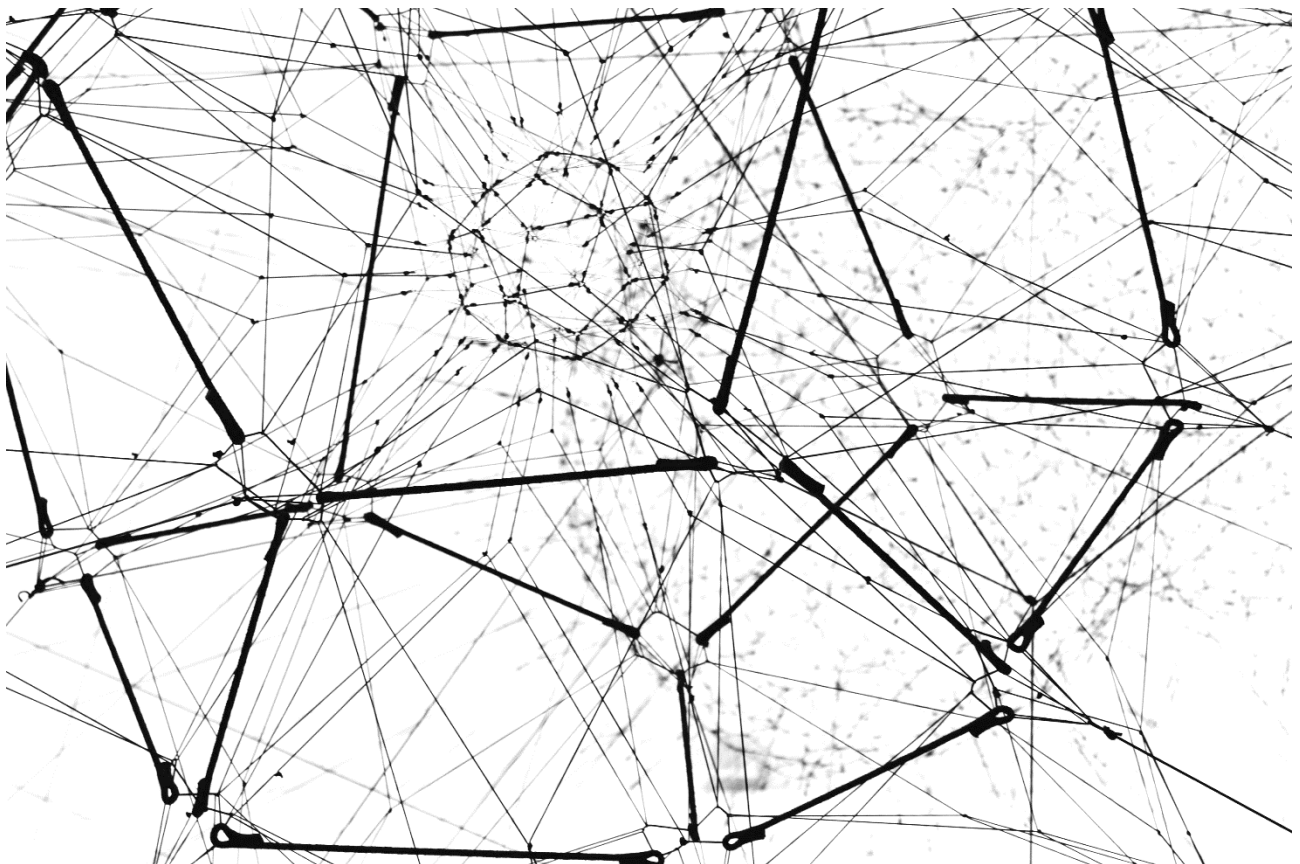
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Introduction

Why is this report important? Because much has changed in Hospitality Distribution already before the Covid crisis; the pandemic aftermath just accelerated developments.

Today, 6 in 10 bookings are online. Compared with h2c's first Distribution Study in 2017, the brand.com share nearly doubled from 10 to 20% in 2022. Over the same period, third party bookings (OTA share including bed banks) grew 5 percentage points to 35%. Combined, online direct and indirect sales showed a 15% increase over the past five years, resulting in a compound annual growth rate (CAGR) of over 8%.

As hotel chains are increasingly creating their own destiny via enhanced sales & marketing strategies, **Distribution Systems are under continuous review. Obviously, one tech size does not fit all:** About nine in 10 large chains use the CRS as their leading system (the primary system for distributing Availability, Rates, and Inventory, aka ARI). In contrary, nearly six in 10 small chains rely on their PMS (including a PMS-integrated Channel Manager) to control distribution.

Two in 10 hotel chains using a CRS today are unsure if it is the optimal solution over the next three years. Chains considering a CRS replacement said that it should be replaced either with another system (e.g., a channel manager) or multiple systems (for example a middleware/integration hub combined with their PMS).

Driven by elevated inflation and economic uncertainties, **overall system cost has advanced to a key criterion for selecting a new distribution system.** For acquiring state-of-the-art technology, *costs* and *affordable integration options* have firmly skyrocketed as decision criteria, increasing 45 percentage points from 24% in 2017 to 69% in 2022.

Amidst inflationary pressures, **64% of hotel chains pass on cost increases to their guests.** Large chains are much more inclined to do so versus their smaller counterparts.

When asked to name the Top 3 distribution innovation leaders, six in 10 hotel chains were unable to do so. **In the near to medium-term, AI is expected to drive distribution innovation for guests and system users alike.**

These are some of the high-level study results. More details are outlined in the following Key Findings.

Key Findings

Employed Systems

What systems are employed by hotel chains globally today?

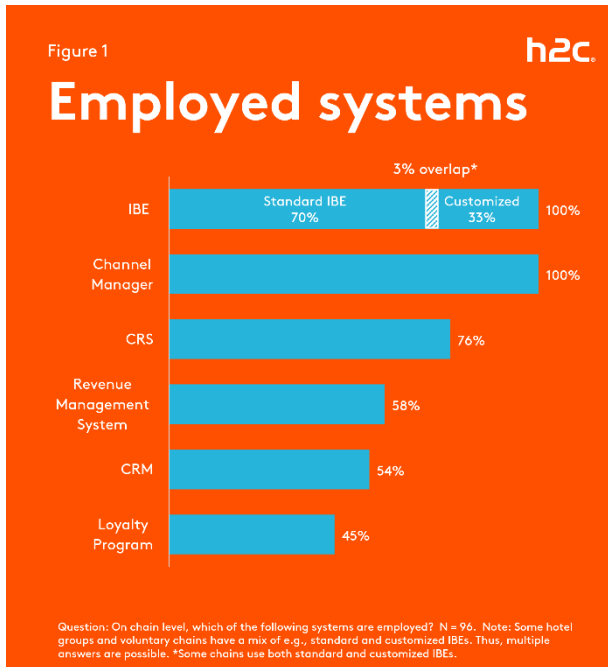


Figure 1 shows that internet booking engines (IBE) and channel managers clearly lead, which is no surprise. Over one third of hotel chains have employed a customized IBE and/or a mix of standard and custom-built features.

Central Reservation System (CRS) usage declined slightly by 4 percentage points vs. 2017 with 76% of hotel chains using a CRS today. On the other hand, channel manager usage increased by 9 percentage points during the same period. While channel managers are used throughout all hotel chain categories (100% usage), about one third of small hotel chains do not use a CRS today, and less than half of them employ a CRM.

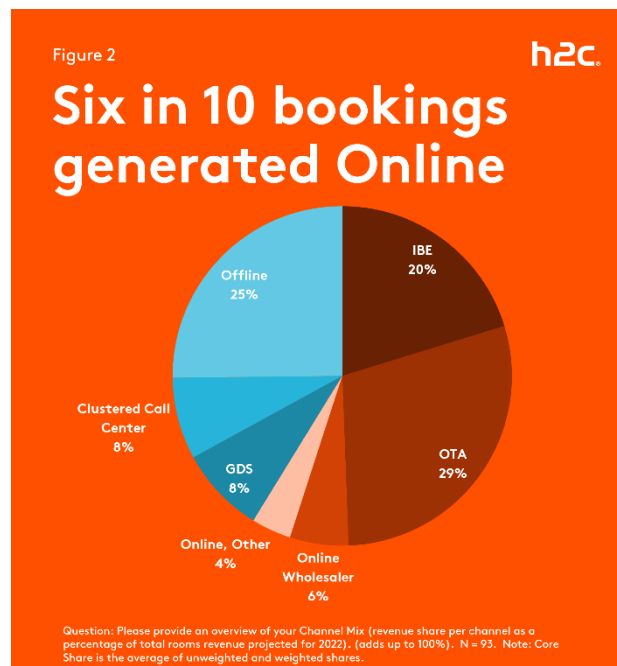
Revenue management system (RMS) and Customer Relationship Management (CRM) usage was significantly higher in 2017. While most large and mid-

sized hotel chains use RMSs today, only slightly more than half of small chains do so.

Six in 10 Bookings Generated Online

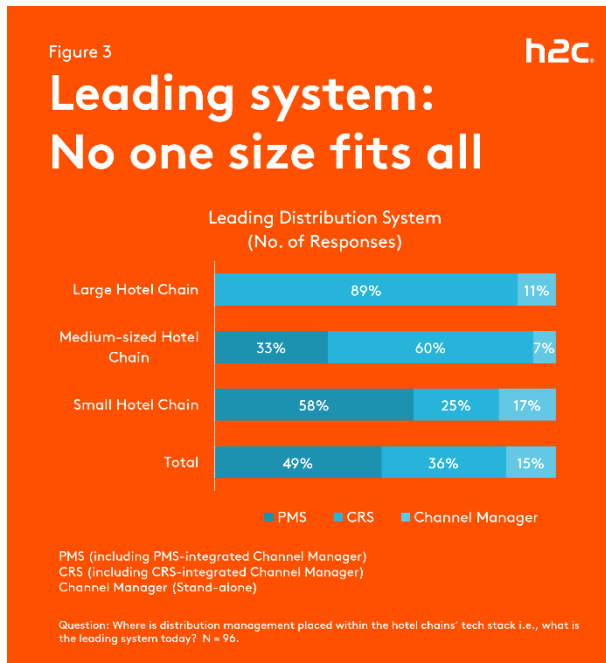
Today, online sales have reached a 59% share of total hotel revenues, and the 20% IBE share has doubled since 2017, when h2c conducted its first distribution system study (see Figure 2). OTA business (including Online Wholesalers like Hotelbeds) grew at a slower pace, reaching a combined 35% share today vs. 30% in 2017.

GDS bookings are mostly driven by large U.S. chains. For the other regions, GDS sales on average are below 5%. CRO bookings have increased because of the strong growth of Middle East hotel chains' call center businesses. For the other regions, it remained at 2017 levels. Offline shares have declined 17 percentage points vs. 2017 to a total of 41% including GDS and Call Center/Central Reservation Office (CRO).



Lead System: One Size Does Not Fit All

The employed distribution lead system (defined as the main system distributing dynamic content) varied across the hotel chain categories. Especially small chains rely on their PMS and integrated channel manager for managing distribution.



Back in 2017, 86% of all chains used the CRS as their leading system —only 14% used another system i.e., either a PMS or a channel manager.

Today, nearly half (49%) of hotel chains rely on their PMS company together with the integrated channel manager solution to lead distribution (see Figure 3). This represents a significant change in technology usage over a relatively short (5 year) period.

Central Reservation System: Core Modules Utilized

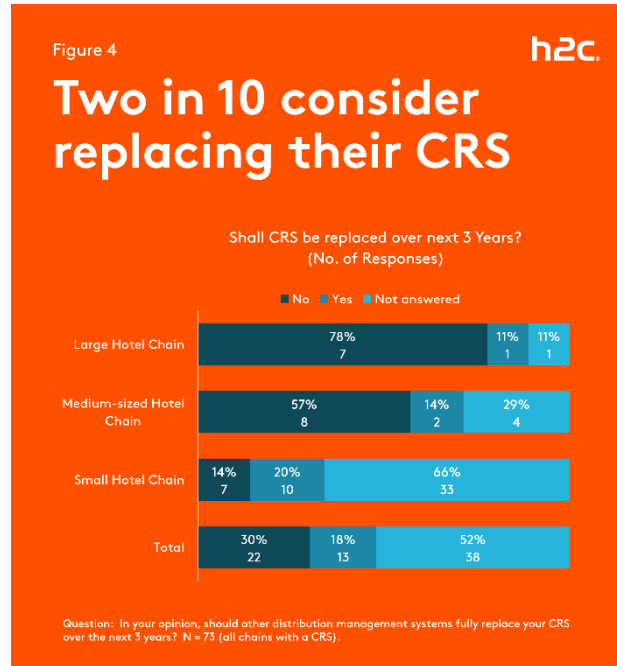
Of the 96 participating chains, 56 use a CRS today. Not only IBE developments and enhancements remain of utmost importance for chains, also GDS usage is still a core requirement when implementing a CRS. Integrated Channel Managers are used by 71% of hotel chains, with APAC and Europe regions showing the highest implementation rates. The CRO module is more important for larger chains as mid-sized chains seem to favor their PMS solution. The Middle East region is leading in terms of CRO usage. Attribute Based Selling (ABS) has a long way to go to become commonplace and is mostly implemented by large chains in the Americas and Europe. However, about half of the mid-sized and large chains are planning to implement ABS within the next three years.

Potential for CRS Replacements

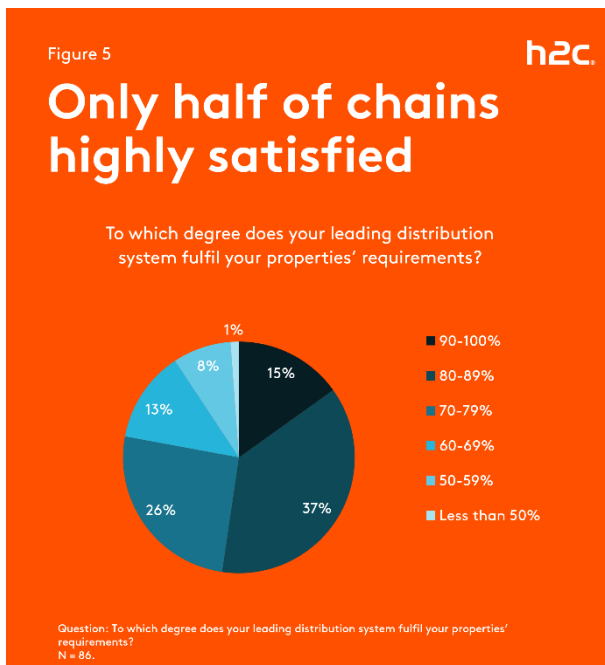
On average, nearly two in 10 hotel chains consider replacing their CRS over the next three years. Although this share is considered to be rather high from h2c's point of view, small chains are even much more inclined to change systems.

With a different mindset regarding their distribution strategy, a staggering ten out of the 17 small hotel chains are willing to replace their CRS (see Figure 4), mostly in the Middle East and APAC regions.

The system(s) considered for replacing the CRS differed by hotel chain, but the channel manager was named most often, followed by the PMS, Integration Hub/Middleware and Other systems.



Distribution System Satisfaction

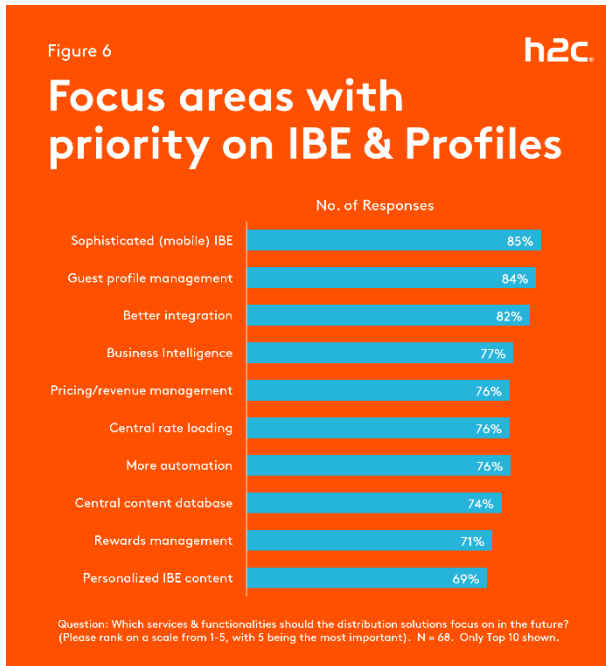


When defining "Good" as a rating with at least 80% fulfillment, then 52% of hotel chains are satisfied with their current (leading) distribution solution (see Figure 5).

On the other hand, this leaves nearly half of all other users less satisfied, mostly mid-sized and small chains. Although Europe —together with MEA—has the highest share of Good ratings, Europe has the most negative feedback on employed distribution technology.

Key Factors for Acquiring Distribution Solutions

What areas should distribution system providers focus on in the future?



There is a strong need of sophisticated and competitive IBE solutions, followed by guest profile management and the hotel chains' requirement to improve their integrations with other systems. The Top 3 requirements all scored well over 80% (Figure 6). More automation, central rate loading, and a central content database are also in strong need for chains. Rewards management within the distribution solution is a further issue of concern.

Personalized IBE content and personalized pricing (not shown in Figure 6) both rank below 70%, probably resulting from the low adaption rate.

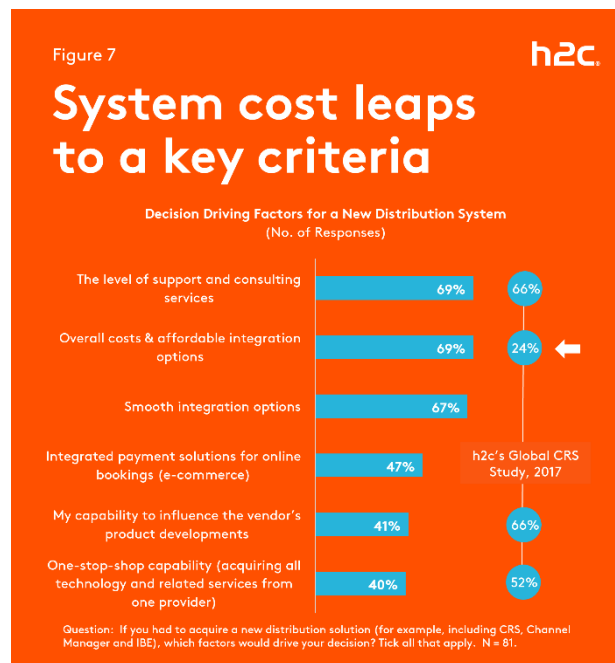
Attribute Based Selling (ABS) and merchandising tools are not yet commonplace, but higher demand for these solutions is expected in the future.

Today, the level of support and consulting services and the overall system costs are key decision-driving criteria for acquiring a new distribution solution.

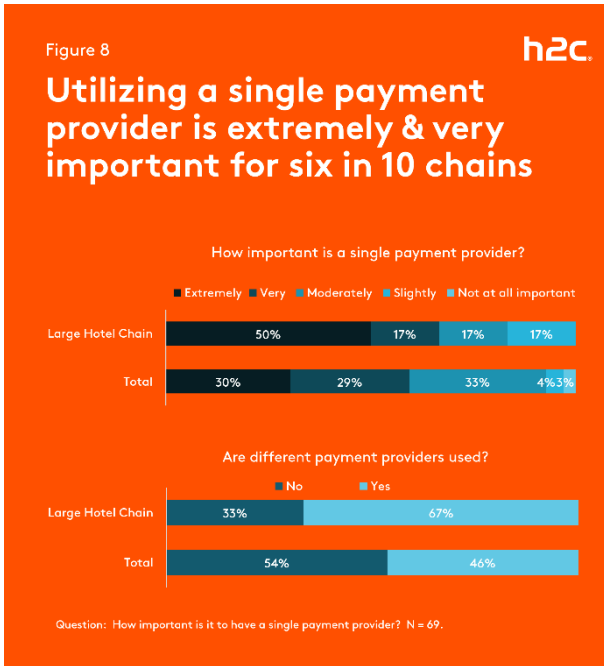
Compared to our 2017 study, costs and affordable integration options massively increased by 45 percentage points, from 24% to 69% in 2022 (see Figure 7). The aftermath of the corona crisis and the uncertain economic outlook have certainly had an impact on the hotel chains' priorities.

Integrated payment solutions also represent a decision-driving factor for almost half of the chains.

Influence on the vendor's product developments and acquiring all tech from one provider is less important than in 2017.



Quest to Simplify the Payment Process



Strategically, using a single payment provider for both e-commerce and hotel on-site solutions is extremely and very important for almost six in 10 hotel chains (59%, see Figure 8). In real life operations, 54% of all chains actually use the same provider, which supports the 59% target.

While 67% of large chains consider using a single payment provider as extremely and very important, 67% (same share) use different payment providers. In this case, it seems that desire and reality diverge as a single payment provider may not be able to cover all payment types across the globe.

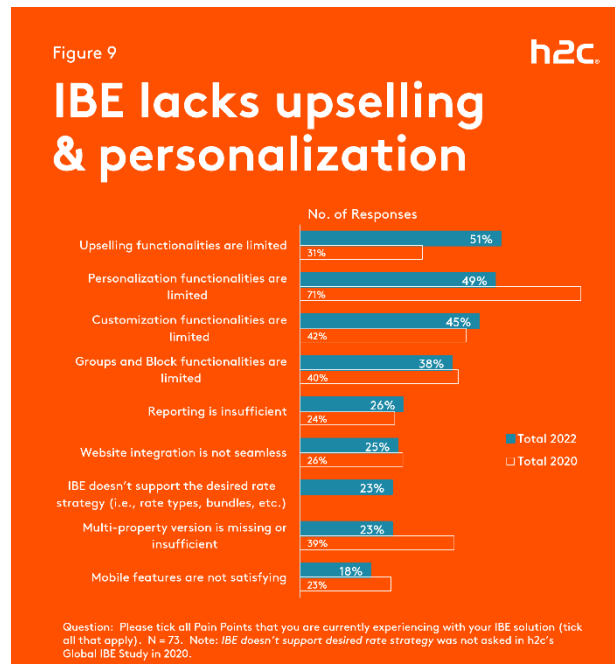
IBE Functionality Gaps

To compare our 2020 Global IBE Study findings with the pain points that hotel chains are currently experiencing with their IBE solution, h2c repeated the question. Figure 9 shows a comparison of 2022 and 2020 study results.

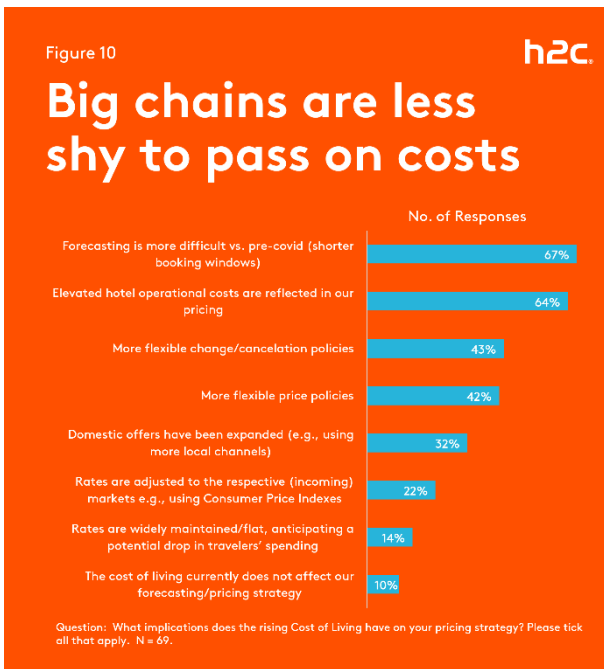
Limited Upselling functionalities were only mentioned by 31% of the chains in 2020. However, this has increased by 20 percentage points in 2022, while more than half of the hotel chains are facing challenges in this area.

Personalization within the IBE has improved by 22 percentage points, but guest-specific offers still pose a major issue for almost half of the hotel chains. Challenges with customization functionalities have increased slightly vs. 2020, with 45% saying these are too limited.

Limited Groups and Block functionalities are still not fully resolved, and Insufficient Reporting is a problem for 26% of the chains. Website integration, no support of the desired rate strategy, missing or insufficient multi-property versions, and missing mobile features are also causing issues. To summarize, significant improvements vs. 2020 have been achieved in the areas of personalization and multi-property versions, while the other upgrades remain in the vendors' product pipelines.



The Costs of Living Impact



Strategies vary when it comes to pricing policies for large chains vs. mid-sized and smaller chains.

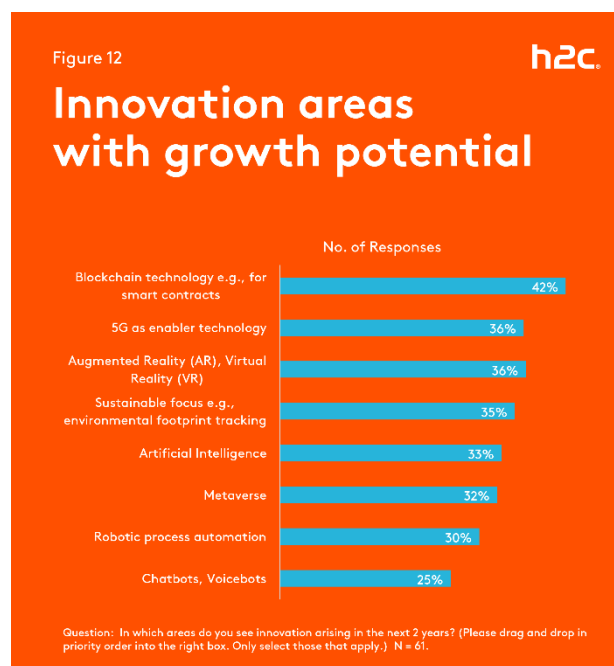
While only 50% of the large chains indicated that forecasting has become more difficult for them, mid-sized and small chains see this as a major challenge.

All of the large chains surveyed were able to align their pricing strategy to rising operational costs, while only 56% of the small chains said this was possible for them. Pressured by rising costs, most of the hotel chains (64%) have adjusted their pricing strategy accordingly.

Flexible change, cancellation and price policies are only used by four in 10 chains.

Only 10% said that the cost of living does not affect their pricing strategy (see Figure 10).

Distribution Management Innovators & Innovation Areas



Without providing preselected choices, h2c asked the hotel chains to list the Top 3 distribution innovation leaders in priority order. Overall, six in 10 hotel chains were either unable or unwilling to answer this question. Distribution channels and channel managers received the most votes, followed by tech/service providers (see Figure 11).

In Figure 12, hotel chains were asked to select from the listed innovation areas and drag and drop them in priority order. Depending on the chain size, the innovation area priorities differ a lot. For example, "sustainable focus" is important for almost half of the large chains, while only about 30% of the mid-sized

and small chains voted for this topic. 50% of the mid-sized chains see 5G as enabler technology, while only 30% of the small chains do so. All chains expect that blockchain technology will be an innovation area in the next two years. Regionally, opinions vary strongly. For example, almost 70% regard Metaverse as import in the Americas versus only 17% in the Middle East.

We expect much more innovation to come online in the next three years as the Covid (down) period has led many hotel chains to thoroughly review their entire system landscape. Persistent high operational costs and lack of staff will keep up the pressure on hotel management to optimise their processes including sales, marketing and distribution. Although tech upgrades pose challenges, to overcome them will be unavoidable and well rewarded.

Methodology

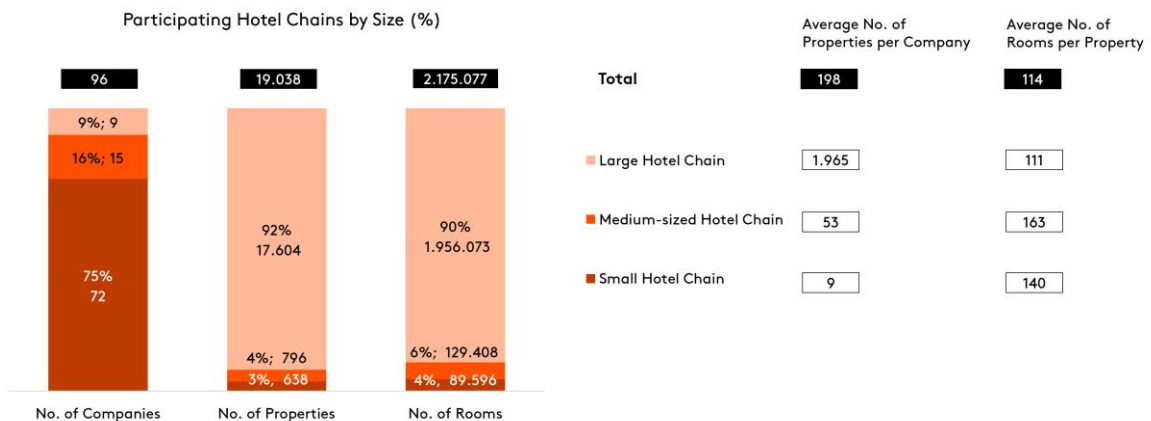
This study combines the findings from an online survey (completed by 86 executives of global and regional hotel chains), 10 executive interviews with hotel chains and, 4 interviews with technology providers including sponsors. In total, the study includes the answers of **96 unique hotel chains** and covers the following regions: Europe, Middle East & Africa, Asia Pacific and The Americas. The study participants are from various functions including Marketing, IT, Revenue, Distribution and Operations.

The surveyed 96 hotel chains, whereof the majority are small hotel chains, represent 19,038 properties and 2,175,077 rooms worldwide (see Figure 13).

Figure 13



Study Participant Profiles



Question: What kind of hospitality company do you represent? N = 98 (96 unique chains; 2 chains provided 2 responses). Note: Figures may not add up to 100% due to rounding. Includes Voluntary Hotel Chains across all 3 segments (6% share of properties).

Definitions

Small Hotel Chain: Operates between 3 and 29 properties (branded or unbranded)

Medium-sized Hotel Chain: Operates between 30 and 99 branded properties

Large Hotel Chain: Operates at least 100 branded properties

Voluntary Hotel Chain/RepCo: Provides marketing, sales and distribution services for its member hotels for at least three (3) independent properties.

Sponsors

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