Google moves from advertising to commission model: What it means for your business

Google's move into hotel booking has made headlines as a potential disruptor in the online booking space. But to many, it remains unclear exactly what role the Book on Google commission-earning model plays in the hotel ecosystem, whether it spells good or bad news for hotels, online travel agencies, travel management companies and how they can they respond.

With the launch of Book on Google, the internet giant has added a new way to earn revenue. Until recently, hotels paid per click for advertising on Google search-result pages. Now Google offers the option of placing live links to hotel company booking engines. For rooms sold through those links, Google makes an "industry-standard commission."

This new Google model enables hotel companies to rebalance distribution between their branded sites and online travel agencies. Hotels pay commissions only on confirmed bookings, which is more attractive and easier to budget for than pay-per-click advertising because hotels know they will pay 10 percent only on rooms booked through the Google link.

Switching to a commission model means Google effectively has entered the travel industry as an online agent. Since Google is the world's most-used search engine, the impact on everyone else in the business could be huge.

Charging commissions clearly makes a lot of sense for Google. It earns much more from a booking than from an ad-click, and upgrading from a simple "look" to a complete "book and stay" furthers its strategy of delivering the most complete and convenient response to any query.

In an age of increasing tensions between hotel companies and OTAs over their varying and sometimes high commission rates, Google offers a hybrid of sorts between OTAs and traditional travel agencies as an avenue for customers to book directly from hotel brand websites at more consistent industry-standard travel agency commission rates.

But what about the rest of the hotel distribution chain? If Google's new strategy takes off, how will it affect other key players in the corporate travel industry, and what can they do about it?

What it means for online travel agencies

The entry of Google into the commissions game arguably offers the first major challenge to the previously unstoppable, decades-long growth of OTAs, which built much of their success through the domination of organic (free and unsponsored) search on engines like Google. OTAs have gained their premium listings on such sites through massive investment in search engine optimization, the sheer volume of their content and trust in their brands.

Now Google has found a way to tap those same ingredients using even greater volume, convenience, brand reputation and, of course, pole position on its own search pages. The OTAs suddenly face a massive competitor that could lower their market share and overshadow their own brand recognition.

Yet Google appears to be moving cautiously, testing the waters with hotel chains while trying to avoid alienating the OTAs. In fact, OTAs are still a major part of the equation as they too can purchase space on Book on Google that offer consumers links to their booking engines. Booking.com has been one of the most aggressive players in this arena.

What it means for hotels

Hotels have long had a contentious relationship with OTAs, relying on them in down times to sell surplus rooms while complaining loudly during boom times about their high commission costs, which can sometimes reach triple the 10 percent industry standard paid to brick-and-mortar agencies and TMCs.

Hotels also complain they have lost control of their brands and distribution strategy to OTAs as customers have become less brand loyal, often turning to OTAs and metasearch sites to shop for rooms rather than branded hotel websites. To counter that loss of control, many hotel brands launched aggressive campaigns last year to reward customers for booking directly on their sites rather than through OTAs.

Google's initiatives do not restore that control. When customers start their search on Google instead of a hotel's branded website, the hotel still has to pay Google a commission, and hotel companies still risk losing control of customers and their distribution strategies to Google, a brand that is even more dominant than OTAs. And with OTAs able to also purchase space on Book on Google, consumers are still likely to click through to book through to an OTA rather than directly to the hotel company.

On the other hand, what OTAs and hotel companies alike might see as a new threat from Google could also prove to be an opportunity. The first hotels to sign up with Book on Google may gain an early foothold and competitive advantage for winning new customers. If hotels can use Google to channel the sale of unsold inventory at more consistent and often lower commissions, yield figures may start to look more promising overall.

What it means for TMCs

In theory, Google's move into hotel distribution should not affect TMCs, which serve the corporate travel market. Business travelers are supposed to follow policy and arrange trips through their company's appointed TMC, which often offers booking tools that employees can use to plan their own travel.

In theory, TMCs could link their internal booking tools to Google instead of their traditional global distribution systems, which could change the way they operate – both technologically and commercially.

But the reality is very different. Increasingly, business travelers simply ignore their company's travel policies and instead book directly on hotel websites or through an OTA. The ease of booking via Google could tempt even more business travelers to avoid the corporate channel and go for do-it-yourself bookings.

What should hotel and travel companies do?

1) *Accept the world is changing*

The Book on Google program is in its infancy and moving carefully as Google tests the waters. But the arrival of a major player like Google is almost certain to change hotel distribution forever, even if we don't yet know exactly how. Acknowledging that reality and factoring it into your business planning is the first step forward.

2) *Reconsider your own model*

The winners will be companies with the technology and mindset to understand the new reality and adapt quickly. For example, tech companies will have to decide whether to partner or compete with Google or both, and OTAs may have to look at adjusting their commissions to remain competitive.

3) *Look for the positives*

Google poses threats but it offers hotels opportunities, such as a channel to new markets. Actively consider whether you can work with Google, not just protect your business from it.

4) *A new role for TMCs?*

For TMCs, Google's move could point to an even deeper rethink. A big conversation last year centered on whether TMCs might evolve into aggregators, managing bookings made not only through their own systems but also through consumer channels such as OTAs, AirBnb and now Google. Remodeling themselves as managers of their customers' total travel spend – whether travelers book through a TMC or direct channels – could be the way of the future.

What's your view?

What do you think about Google's new model for hotel selling? Is it a threat or an opportunity? What strategies are needed to address the changes it will make to the marketplace? Whether you work for a hotel, TMC, OTA or any other kind of player in the travel industry, please share your opinion.