



# The Distribution Disruption



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Hotel distribution has become complex territory. To keep up with its continuing evolution, hotels need the right resources to help create the best distribution strategy.

Not too long ago, there were few options when it came to booking hotel rooms, and hotel commissions were fixed by channel. This was an arrangement that persisted for years, and it was a relatively straightforward system to manage.

But in the past 10 years, there has been an explosion of channels and ways to search and book rooms. This has become the new normal for travelers, but for hotels this has created an increasingly competitive—and confusing—distribution landscape.

*The cost of making a booking is increasing. But who is benefitting?*

# I. The Evolution of Distribution

New channels to sell rooms are appearing all the time. But with so many choices and so many players, there is now an equally wide range of commissions.

Call it the war of the commissions, triggered by the enormous influence of digital. OTA commissions are high, and hotels increasingly look to cut out the middleman and build out their own direct booking programs.

Such a large range of commissions, with more variability than ever, makes calculating and assessing the best distribution strategy a growing challenge.

What we now have is a dynamic marketplace that's in flux. Hotels want to know how to create a distribution strategy that will deliver the most powerful impact—which channels provide the most business, the cost of each, and the return on investment for each.

With more flexibility comes more complexity. But for the hotels with smart strategies, it can also offer more opportunities.



## II. Commissions Outlook

From traditional channels to the next disruption, here's the rundown on today's channels.

### Travel Agencies

The death knell tolled too soon for traditional travel agents. Although they're no longer the go-to for many travelers—and have been dramatically affected by the dominance of OTAs—they're making a resurgence with travelers who want their expertise to help winnow options and craft unique experiences. These travelers tend to have higher budgets and equally high expectations of personalization and customer service. And they're not just older generations, either—according to Travel Agent Central<sup>1</sup>, 33 percent of Millennials are using travel agents, more than either Baby Boomers (18%) or Gen Xers (17%), and 60 percent of Millennials will pay a travel agent for their expertise<sup>2</sup>.

### Where's the \$\$?

Traditionally, agencies worked on a fixed commission that was usually 10 percent. Now there's a variable range—often between 7 and 12 percent—which makes this a difficult channel to evaluate. Additionally, there's a move towards fee-based services instead of percentages. The good news is that the client profile is a high-value, quality traveler who spends more—meaning this can be a valuable channel for hotels.

### Travel Management Companies

TMCs bring booking volume, and they've been a dependable avenue for hotels to gain access to sales channels that otherwise wouldn't be available to them. But they're also in the crosshairs of hotels' cost savings efforts, especially the larger chains. Some moves to cut commissions could mean that TMCs focus their efforts on hotels that pay higher commissions. They've also experienced the impact of business travelers who operate outside the parameters of their corporate travel agreements and can easily book their own travel and acquire hotel loyalty points.

<sup>1</sup> David Moseder. Studies Show Why Millennials Are Good News For Travel Agents, Travel Agent Central, August 23, 2017. <https://www.travelagentcentral.com/running-your-business/studies-show-why-millennials-are-good-news-for-travel-agents>.

<sup>2</sup> Juliana Shallcross. Millennials Like Hotels and Travel Agents, says Amex. tnooz. August 9, 2016. <https://www.tnooz.com/article/article-millennials-like-hotels-and-travel-agents-says-amex/>

## Where's the \$\$?

Commissions for TMCs were replaced in the early aughts by transaction fees. Set fees can make budgeting for this channel easier, although this a channel ripe for disruption. There are plenty of companies looking to gain entry to this market and bring some transparency and consistency to bulk business travel bookings.

## OTAs

OTAs have been, without question, the biggest disruption of the industry in recent memory, and across every aspect of travel. They dominate digital, and have changed the way everyone thinks about and books travel. They also brought a catalog mentality to booking. Hotels feel they need a presence on these sites, but OTAs don't tend to encourage loyalty or return bookings and a hotel can end up getting lost in the crush and have little control over how a property is presented, sacrificing relationships with guests.

## Where's the \$\$?

Although not always technically via a commission check, hotels will pay 15 to 25 percent in commissions, and sometimes higher, for bookings via this channel. In addition, in the pay-to-play marketplace of travel, hotels must pay for a presence on these sites. While growth has been extremely high, it is flattening—OTAs actually make up a smaller share of hotel distribution than traditional agencies, with 12.4 percent of room bookings. They are most used to book middle and lower-end rooms, chiefly by price shoppers.

Hotels Will Pay 15 to  
20% in Commissions



## Hotel Direct

To save on commissions, regain some control of the guest relationship and counteract the feeling of being “one of many” on OTAs, many hotels are focusing on tactics to encourage travelers to book with properties directly. They’ve improved their websites and technology (by, for example, releasing mobile apps, a big hit with Millennials and Gen Xers—64 percent and 50 percent, respectively, have downloaded a hotel app, according to Deloitte<sup>3</sup>), ramped up loyalty programs, and begun offering special perks to guests, like the ability to select specific rooms. These guests, in turn, are more likely to leave positive reviews and turn into return visitors. Loyalty accounts are particularly valuable for upper tier hotels, but are growing across all tiers—50 percent of upper and middle tier hotels’ business comes from loyalty bookings.

One additional drawback to direct booking is the ability and means to find where to make a hotel booking – enter ‘search’ and meta’ search [see The Next Disruption]. This adds an additional wrinkle and cost to hotels as they seek to build direct relationships with guests.

### Where’s the \$\$?

This is a case where a hotel needs to spend money to make money. Making direct booking an attractive proposition for guests means an outlay of investment. Adding an additional expense to this approach is the “referral” cost of sending a consumer to a hotel website or mobile app during their booking process. The good news, however, is that these bookings can be very profitable and encourage long-term loyalty. And business travelers love them—62 percent are hotel loyalty plan members according to emarketer.com<sup>4</sup>.

<sup>3</sup>Deloitte. Winning the Race for Guest Loyalty. 2014.

<sup>4</sup> US Travelers Are Heavy Users of Loyalty Programs. eMarketer. November 6, 2017. <https://www.emarketer.com/Article/US-Travelers-Heavy-Users-of-Loyalty-Programs/1016705>

## The Next Disruption

OTAs paved the way for digital, and now metasearch and travel apps are poised to be the next big disruptions in trip booking. These new device-agnostic platforms offer high ease-of-use for travelers, who can search, find, and book travel almost instantly.

Google Travel<sup>5</sup>, for example, has updated its hotel search capabilities on mobile, enabling users to organize a complete trip from their smartphone. There are also plenty of small, scrappy startups looking to disrupt travel in both the personal and corporate markets. Travel tech raised \$5.3 billion in investment in 2017—an all-time high for the sector<sup>6</sup>.

### Where's the \$\$?

Watch this space. If a tech giant like Google can dominate travel, then they will likely have an enormous impact on hotel room price and payments. But a wave of new companies focusing on business travel could also further fragment the market and bring that fragmentation to commissions.

Travel Tech Raised  
\$5.8 Billion

<sup>5</sup> Google. Planning Travel on the Go Just Got a Whole Lot Easier. February 6, 2018. <https://www.blog.google/topics/travel/planning-travel-go-just-got-easier/>

<sup>6</sup> CB Insights. The State of Travel Tech: The Startups, Investors, and Trends Shaping the Future of Travel. January 4, 2018.

# Finding the Right Balance With Onyx

Unraveling the complexity of hotel distribution is one of the biggest challenges hotels face in today's market.

Hotels will always need to balance distribution from multiple channels—the trick is finding the best combination of channels with the correct balance of costs and revenue.

Opportunity awaits if you know the right avenues to pursue. Onyx CenterSource has a unique capability to provide critical insights in booking patterns, booking source and associated commissions because of our position in the industry. As a leading provider of B2B payments and business intelligence services, we work with both hotels and agencies to bring transparency and efficiency to their payment processing. This also means that we have the data and analytics to answer questions no one else in the industry can answer. We can help you improve business performance, understand the value of third-party bookers, and plan the optimal distribution strategy.

Say farewell to commission confusion, and hello to an optimized booking source strategy.

*Onyx CenterSource is the world's leading provider of B2B payments and business intelligence to the hospitality industry.*

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