

Online Booking of Danish Hotels

- Online Pricing and Distribution Strategies for Hotels

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Overview

- Online booking of hotels in Denmark:
The results of a desk research based study and a survey
- Three online pricing and distribution strategies for hotels:
The ABC of online pricing and distribution for hotels
- The agent and the merchant models
- Price guarantees – as given by some hotel chains

The *method* used in studying online booking of hotels in Denmark

A desk research based study was undertaken among *all* the 876 hotels in DK, with an emphasis on the 320 online bookable hotels.

A telephone survey was undertaken among ALL big hotels and a sample of the medium/small online bookable hotels (representing 11% the hotels and 24% of the rooms).

Hotels in Denmark

- The online bookable hotels could be booked at from 1 to 7 platforms, with 2.7 as the average
- 37% of the hotels (320), with 67% of the rooms, can be booked online (in real time).
- The 320 online bookable hotels (with 2/3 of the capacity) get 12% of their bookings online this year, 2005.
- The overall average percentage of online bookings is thus 8% this year, 2005 (i.e. 2/3 of 12%)
- On top of this comes 11% of e-mail booking requests (not real online bookings). - i.e. 19% via the Internet.

Online booking platforms per hotel

Average: 2.7 online booking platforms per online bookable hotel.

Websites	Hotels	Hotels %
1	116	36%
2-3-4	135	42%
5-6-7	69	22%
Online	320	100%
Not OL	556	
Total	876	

Note: Some hotel chains may work with more than 7 different online platforms across their hotels, but no *single hotel* appeared at more than 7 of those platforms, which were included in the study.

Real online bookings + @

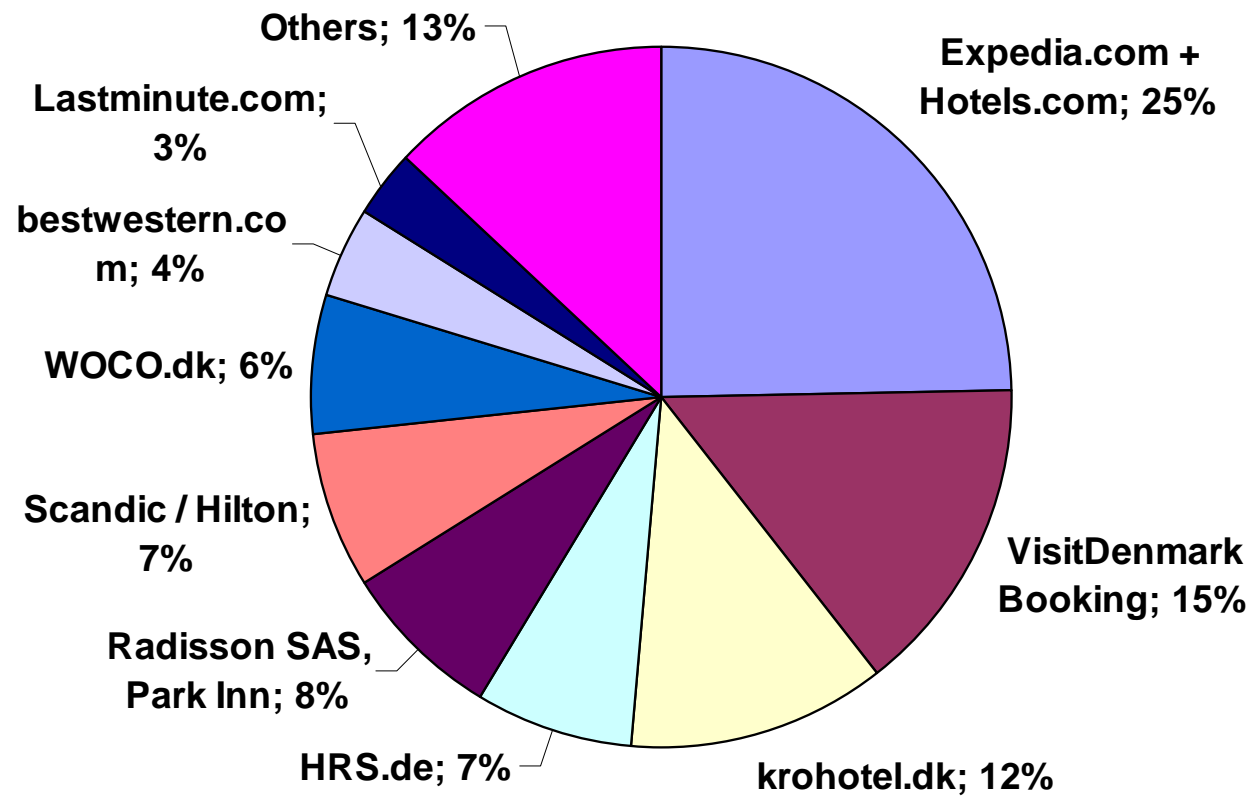
	Real online bookings 2005 %	Email bookings 2005 %
ALL hotels – in Denmark	8%	11%
ALL hotels with at least 100 rooms	9%	7%
ALL hotels with under 100 rooms	7%	15%

- Big online hotels get 10% of real online bookings, other big hotels 0% (ave. 9%).
- Small/medium online hotels get 15% of real online booking, others 0% (ave. 7%).
- So, small/medium hotels, which are online, get lots on real online bookings (15%).

Estimation of online market shares

- 1) Which hotels on which online booking sites? – Which site had the cheapest rate for each hotel? Weighting by size of the hotels.
- 2) Weighting by price level
- 3) All other factors, including survey responses.

Estimated market share for online booking platforms for hotels in Denmark, 1H 2005



Three basic online pricing and distribution strategies for hotels

<div style="text-align: right;">Online distribution</div> <div style="text-align: left;">Online price</div>	Distribution at one website only	Distribution at more than one website
Lowest price at one website only	Strategy C - Profile C (36%)	Strategy B - Profile B (49%)
Lowest price at more than one website	Not possible	Strategy A - Profile A (15%)

Three basic online pricing and distribution strategies for hotels

- **A: The hotel keeps the same low price at more than one website.**
15% of hotels – with 22% of rooms
- **B: The hotel is online bookable at more than one website, but only one of these have the lowest price.**
49% of hotels – with 59% of rooms
- **C: The hotel is online bookable at one website only.**
36% of hotels – with 19% of rooms

Results of the three online strategies (or profiles) – for big hotels

- A: **15%** real online bookings (+ 6% @)
- B: **9%** real online bookings (+ 6% @)
- C: **3%** real online bookings (+8% @)

So, clearly, for big hotels **strategy A** is the best.

Results of the three online strategies (or profiles) – for SME hotels

- A: **15%** real online bookings (+ 16% @)
- B: **17%** real online bookings (+ 9% @)
- C: **12%** real online bookings (+ **25%** @)

So, for **SME hotels** it is not clear which strategy is best.
Strategy B scores marginally better than **A**, for online.
And **strategy C** is very good, when @-bookings are incl.

The battle between online intermediaries and the hotel chains

Online intermediaries:

The agent model – or the *merchant model*
(for merchant hotels the online merchant can give price guarantees)

The hotel chains:

lowest online price guarantees – and more

The 2 models – for sales of hotels through online intermediaries

The agent model

The intermediary takes no inventory risk

Intermediary's margin:
About 10%

Price determined by: The
hotel (chain may give price guarantee)

The merchant model

The intermediary takes no inventory risk

Intermediary's margin:
About 20% (18-30)

In return for the *double margin*, merchant hotels are listed first, in the top half, whereas agent hotels are listed in the second half.

Price determined by: The
merchant * (may give price guarantee)

Note: The hotel is not allowed to try to make the merchant take a certain price (price fixing), cf. Article 81 of the EC Treaty – and national laws, such as the Danish Competition Law §6 sec. 2 no.7. Article 81 actually protects a weak re-seller from strong brand owners, but some online intermediaries (merchants) are not exactly weak. A strong re-seller (merchant) must not abuse its dominating position, by imposing unfair purchase or selling prices, according to Article 82.

Lowest online price guarantees - given by some hotel groups

- 5 foreign hotel groups with **20%** of all hotel capacity in Denmark give lowest ("best") online price guarantees
- These groups represent **30%** of the online bookable hotels
- Among online bookable big hotels they represent **38%** of the hotels, with **43%** of capacity, in that group

Note: The 5 groups are: Scandic/Hilton, Rezidor SAS (Radisson SAS and Park Inn), Best Western, Accor, Marriott. On top of these come Choice Hotels (the guarantee is advertised at choicehotels.com, but not at choicehotels.dk).

Online price guarantees and re-sales models for **hotel chains**: Two OK - one so-so - one not OK

	No online price guarantee	Online price guarantee given
Agent model	OK	OK
Merchant model	Hotels should not violate the competition law	Hotel chains risk violating one of two laws – in DK [*]

* 1. The marketing law, if they don't keep promise. 2. The competition law, if the hotel chain tries to dictate the merchant what price to take (called price fixing, which is illegal). There are similar competition articles in the EC Treaty.

Summary

There are three online pricing and distribution strategies (or profiles).

To take the same price at several websites is the most effective online strategy for big hotels.

There are some legal aspects of online pricing strategies, which should be observed.

References

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