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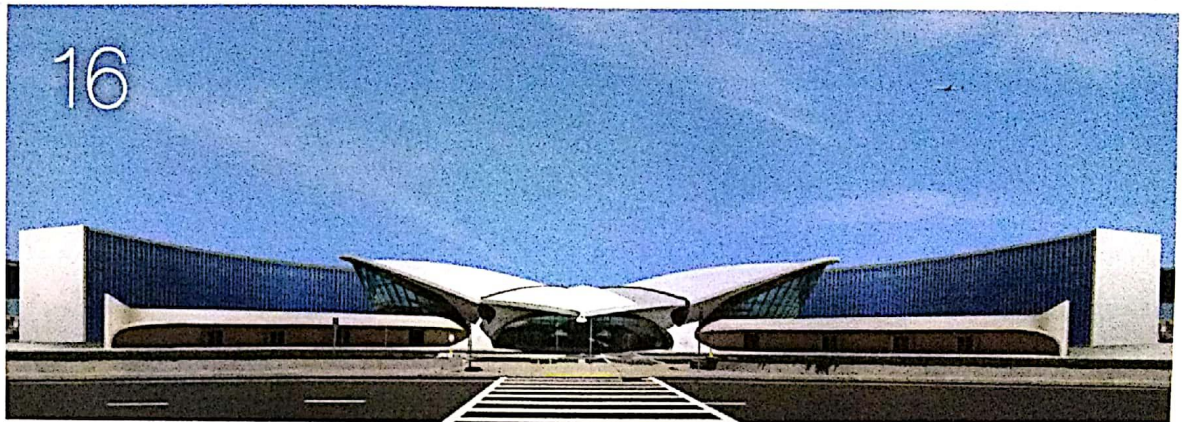
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# Why brands should really be scared of Expedia

BY DAVID EISEN  
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One of the bigger gripes leveled at brands is that there are too many of them. If you've attended any hospitality conference, you'll recognize this as a frequent refrain uttered, as expected, by hotel owners. Hotel brand executives—hey, more brands the merrier!

Drifting down the funnel, brand executives have a tendency to grouse about online travel agencies, the duopolistic Expedia and Booking.com. Even though OTA success was sealed off their own miscalculation, hotel companies bleat about high commissions, and invariably fall back on this line: 'If it wasn't for our hotels, the OTAs would be out of business.' To that I respond: 'Don't cut off your nose to spite your face.'

OTAs did not get rich by being dumb. They realized the ultimate asset-light business: thrive on other people's stuff. And when they got to critical mass, OTAs like Expedia began to pivot from simply being a distribution platform. For instance, it offers hotel owners a host of technology solutions, products that include white-label offerings and revenue management tools to guest review insights and marketing services. You know, many of the same tools brands provide their franchisees. Oh, and most also offer loyalty programs, from Hotels.com Rewards to Orbitz Rewards.

Let's review: a suite of technology tools—check; loyalty programs—check; and the distribution part they have down pat. The question becomes: What is preventing OTAs from initiating their own hotel brands, just like the Marriotts and Hiltons of the world?

It's not implausible. And for hotel franchisees who already pay fees to the brand on top of OTA fees, it sounds even better. According to HVS, hotel franchisees pay upwards of 11 percent of their rooms revenue to their brand or franchisor. This includes a royalty fee, a sales fee, a marketing fee, a loyalty fee, miscellaneous fees and an initial startup fee. That's a lot of fees, which is why some hotel



owners make the decision that operating an independent hotel is more profitable in the long run.

If those fees weren't enough, hotels, in many cases, are subject to a commission fee when taking business through an OTA. Under the Agency Model, OTAs serve as agents for their merchants, listing the hotels, their services, and the prices. The OTAs receive commissions (generally between 10 percent and 30 percent) on bookings made via their sites, with the hotels paying the OTAs following receipt of payment. All of these fees add up, with, sometimes, only gristle left on the bone.

A natural evolution of OTAs is a product for traditional hotel owners. As evidenced, OTAs

have gradually become more differentiated, offering similar products to those of traditional hotel companies. All that is missing are the flags. Should an OTA seek to enter the brand game, it would come down to this: convincing a hotel developer/owner to use its brand over another. And hotel companies going asset light and relying purely on their brands makes it that much more a compelling reason for OTAs to join the mix.

A hotel consultant told me that if an OTA did decide to make the leap, it likely would be in a form tantamount to a soft brand. (Imagine, The Eisen Hotel, by Expedia. I'd stay there.) And while he did not dismiss the idea altogether, he believes that other services would have to be rolled out that include things like standards, better loyalty programs, increasing reservation contribution and establishing guest satisfaction scoring and quality metrics. "They would have to charge for this, but probably not like the current brands," he said.

OTA reservation contribution, particularly in the select-and limited-service segment, is almost as high as brand.com. It gets you thinking: this could work. Now, let's not be hurried; there are many other issues at play here, including lawsuits that could arise over page positioning. But it's not far-fetched, either, and it is disruption the hotel industry could do without. **HM**

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