

COVER STORY

Online hotel distribution: A far cry for independent hotels

While technology advancements have brought about drastic changes in the hotel rooms distribution system globally, the benefit of these advancements are still limited to branded upscale hotel chains and yet to percolate down to small and medium players of the industry due to various reasons. **P Krishna Kumar** explores the reasons for low technology penetration in independent hotels after speaking with the stakeholders

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Like in every sector, technology has made rapid strides into hospitality as well, especially on the online marketing and distribution side, in the last one decade. While Global Distribution Systems (GDSs) was the only platform available for hotels to distribute their inventories to the global market in the early years, Internet explosion has opened up new opportunities for hotels to market their products through various other platforms, including their own website, online travel agencies (OTAs), etc. in the new millennium. Today, a sizeable share of hotel inventories are sold online and the trend is catching up in a big way as awareness about the online tools are growing in the market. According to a survey, online distribution of travel products has almost doubled between 2009 and 2011 in the Asia-Pacific region. It is estimated that there are about 700 million Internet users

in the Asia-Pacific region, out of which about 100 million reside in India. While there is no denying the fact the most 'bought after' online travel product is airline tickets, a fair volume of hotel rooms are also getting booked through the online medium of late.

In this era of online communication, it is important for hotels to use all possible online mediums to create buzz and gain visibility for their products in the market place. For any accommodation provider, large or small, it is now practically impossible to ignore the online distribution and marketing channels. But the irony is that technology comes with a cost. While the large chains have the wherewithal to deploy the choicest of technology to gain visibility and distribute their inventory, smaller players, despite having good products, lag behind in harnessing the technology tools due to lack of capital and fear of fair return on investment.

Online distribution in Indian hotel industry

Online distribution is more or less nascent in the Indian travel industry. Even if the global travel and tourism industry is taken into consideration, the online penetration is the highest in North America, to the tune of 65 per cent, while it is 51 per cent in Europe and 35 per cent in Asia Pacific. In India, the percentage will be much lesser. In the hospitality segment, the revenue generated through the distribution of inventory through online distribution channels like GDS, online aggregators, online travel agents, etc. is still not that high, even for established brands.

"The contribution of GDS to hotel sales has been relatively low so far due to the traditional lack of knowledge and interest by travel agents to sell products other than air tickets. The market dynamics are changing rapidly," agrees Marco Gorin, Chief Commercial Officer, InterGlobe Technology Quotient (ITQ). Explaining the benefits of GDS platform, Gorin said that it helps hotels to distribute inventories globally and through a huge user base. "This enables the hotel to distribute inventory globally, as well as ascertain demand globally. It allows the industry to seamlessly book hotel and air content simultaneously. It brings down significant costs ultimately for the hotel in areas of their help desk, call centres and sales teams as well and at the same time drive greater volumes at higher yields. The airline industry has benefited significantly over the years driving their yields and volumes through the GDS. Small and medium size hotels need to invest in technology that can host their inventory," he informed.

Online distribution volumes for hotels is still small in India, agrees Amit Saberwal, Senior Vice President, Hotels & International markets, MakeMyTrip. "We estimate that 5,000 room nights a day are booked through online booking channels and this represents around five per cent of the total rooms booked per day in the country in the organised hospitality sector," he opines.

Jasdev Singh, Director – Market Management, Indian Subcontinent, Expedia sees a positive change towards online distribution in the market. He believes that the total business generated by the online channels for hotels in India is about 10 to 15 per cent. "Online distribution has already reached between 10-15 per cent of the total business of a hotel – both from direct and indirect distribution on average. This number can of course be much higher for smaller independent properties that are very active in this domain. In the US, this number is well over 50 per cent and India is well poised to grow out its online share given very high online growth rates," he states. Quoting Phocuswright's APAC report, Singh says that online hotel bookings are on track to double from USD 313 million (2008) to USD 674 million in 2012.

Where do independent hotels stand?

While branded chains can afford to have well integrated end-to-end technology solutions to manage their inventory online through all possible channels, independent small and medium hotels/groups still lag behind in terms of online distribution. Kamal Manaktala who had commissioned a study on technology penetration in the small and medium independent hotels in 2007 admits that most of these hotels were not interested to invest in technology other than their own websites till then. However, things have changed over the years, he admits.

The challenge for independent hotels is having the IT set up in-house to manage all these distribution channels on integrated platforms. Also, the transaction fee and other commission cuts these channels levy on the hotels is also a concern for small and medium hotels, which sell their inventories at much lower rates compared to bigger format hotels.

"The challenge is to manage these disparate channels of distribution separately. The mid and small-scale hotels do not have the IT set up that could have provision for all these channels on an integrated platform. Without such IT set up it would require to manage all these channels manually, which is cumbersome, resource hogging and erroneous. Also, there are other entry barriers in terms of capital costs or committed costs that is required to be on GDSs. The transaction costs on GDS could range from 10 – 15 per cent depending upon the provider and the booking amount, apart from this there is a travel agent cost of minimum 10 per cent. Such transaction costs make it too expensive for properties whose Best Available Rates (BAR) is less than Rs 4,000 or so. Hence, for small and mid-scale hotels, it becomes difficult and impractical to efficiently leverage from these channels without automation for better management and without better GDS rates," explains Aditya Sanghi, CEO, Hotelogix.

Harihar Patra, Director - Marketing, Toshali Group, which owns and manages mid-scale resorts in the eastern and northern regions, confirms that technology predicament for smaller chains, "It is a big challenge for a mid-scale company as the technology is costlier as is its implementations. As technology keeps changing, the platform to perform becomes very dynamic. Hence, it is very risky for a mid-size company to invest on technology rather than

invest in their core area of business. However, it is always advisable to share the cost among a group of people to leverage their strength to face the upcoming challenges.”

Expressing a similar opinion, Puneet Gupta, Managing Director, Tivoli Group, says that the group, despite being on the GDS platform, does not derive more than five per cent of the room revenue. “We have recently positioned our brand in travel aggregation and gazing the response,” he adds.

Explaining the limitations of independent hotels while competing with larger chains on online distribution, Sunil Bhatia, Director – Sales and Marketing, The Mirador Hotel, Mumbai said that while larger chains can afford to have dedicated teams to focus entirely on online booking engines and evolve strategies, smaller hotels or hotel chains cannot have such dedicated departments. “Therefore, the response time may not be faster in that case for independent hotels,” he informs. While direct sales fetch 65 to 70 per cent of the revenue, electronic distribution, all channels put together, earns about 25 per cent of the total revenue for The Mirador, says Bhatia.

Asif Meghani, General Manager, Check Inn Hotel, which has opened their first property in New Delhi last year, also feels that the biggest challenge before independent hotels is proper management of room inventory on a regular basis with proper updates on sold out dates. The hotel receives approximately five to eight per cent business from the online distribution channels.

There is lack of confidence among the customers when it comes to booking lesser known online hotel products, opines Dhruv Shringi, Co-Founder and CEO, Yatra, while participating in a technology seminar in Delhi recently. “The hotel products in the lower categories lack homogeneity and therefore there is lack of trust to buy them online,” he says.

In order to sell room inventory through different online platforms requires a certain amount of IT capability and compatibility. It is a big challenge for independent hotels to adopt very high level of technical compatibility, informs Gorin. A majority of independent hotels lack robust Property Management Solutions (PMS) that have the capability to integrate with either GDSs or hotel distribution systems. Hotels have to look at their own capability to distribute online, enhance their reach and grow their revenues. However, we have observed a far higher level of technology adoption by more hotel players now who can benefit from being part of our GDS inventory,” he observes.

Technology adoption may be low among independent hotels as compared to big groups / chains, observes Udai Singh Solanki, Chief Technology Officer and Managing Director, eRevmax – RateTiger, but they manage to have some form of online presence, whether through a website or by selling through only a couple of online channels. However, he feels that more education and awareness creation about the profitability of going global will drive entrepreneurs in the unorganised independent segment to the online business.

There is some level of reluctance to do business online among hoteliers in the lower categories, feels Nishith Srivastava, Vice President – Product Marketing, RateGain, because of lack of interest to do business transparently. They generally tie up with a few travel agents and these agents feed them with bulk business round the year.

Cost Factor

Information Communication Technology (ICT) has come of age and become an indispensable element in the marketing of a product to the global client. While the advantages of technology adoption are unfathomable, there is a cost attached to it, which sometimes becomes a thorn of contention between the technology solution providers and the investors. The same is true in the case of hospitality products as well. A recent report by a global research agency – STR - about the cost incurred by the US hotels, a market where online distribution of hotel inventory is more than 50 per cent, was an eye-opener in this context. STR study has revealed that the US hotel industry incurred a whopping USD 2.5 billion in potential revenues to Online Travel Agents (OTAs). The study reports say that OTAs proved to be a ‘fairly costly’ distribution channel for hotels in the US.

OTAs can bring volume to hotels, but the commissions are a major irritant for hotel owners, agrees Srivastava.

However, the OTAs and GDSs contradict this report with the various added advantages and benefits, which these channels offer to hoteliers other than just inventory selling. "It is my belief that viewing online distribution as purely a transactional channel is incorrect, even though that is purely 'pay for performance' driven. Having said that, online distribution offers a significant marketing opportunity, which should be used to grow one's hotels brand as well as direct online hotel reservations," comments Singh of Expedia.

The perception that OTAs are costly selling channels, according to Saberwal, is based on an abnormally high percentage of commission that was charged by some international OTAs in the early years. "We have always believed in a win-win partnership with our hotels and ensure that the hotels just need to pay a reasonable compensation for the fresh bookings we bring to them from new market sources," he says. Commenting on various ancillary benefits, which hotels get by coming onboard with an OTA, he says that hotels benefit out of the 'billboard effect'.

"There is a tremendous 'billboard' effect that a hotel gets once it is listed on a popular OTA as a certain number of customers who are aware of the property directly call the hotel for reservations. This is a well documented fact. Small independent hotels also benefit from the distribution power of the Internet. OTAs somewhat level the playing field for them as they are able to compete with some more established brands," he states.

What is the alternative?

Technology throws up alternate cost effective tools to overcome every possible challenge from time to time. With the advent of 'cloud' technology, small and medium scale hoteliers can really get all their online distribution activities integrated without really bothering about big upfront investments to set up IT infrastructure in house. The technology is a convenient model especially for players in the SME segment who do not have the budget to deploy all the IT infrastructure in-house.

There are companies, which provide channel managers on the cloud. Any hotel having good Internet connection can make use of this system and integrate all the online distribution channels managed through these channel managers available on the cloud. "I think we first need to understand that hotels do not always need the big complex systems like CRS, RMS, etc to be able to sell online. They can simply have a channel manager through which they can push real-time rates and inventory updates on travel sites. Channel management technology is a software either downloaded as an application or accessed through a browser. All a hotel needs is a computer with Internet connection, as well as already selling across multiple online travel agents (OTAs)," explains Solanki. RateTiger offers the largest distribution network with over 700 connected channels, as well as access to the four major GDSs. To help independent hotels to sell online, RateTiger has launched a special product, SimpleDistribution, recently.

RateGain, another major player in this segment, have developed products to help hotels to lower their dependence on online distribution channels, which involve higher commissions.

Enumerating the advantages of cloud-based technology, Sanghi of Hotelogix says that this technology will enable budget independent hotels to compete with upscale brands by providing ease of booking and visibility. Cloud systems offer similar capabilities and more and providing an answer to the growing need of having IT backbone can help them meet these expectations, he said. Hotelogix currently services 80 hospitality customers spread in 29 countries with their cloud solution.

Opportunities

India's hotel industry is largely unorganised and single owner independent hotels far outnumber branded hotels. Technology is yet to make serious foray into the vast majority of independent hotels. Tapping this sector would be a challenge as well as an opportunity for technology players.