

Demystifying the Digital Market & Guide to Commercial Strategy

Demystifying the Digital Market & Guide to Commercial Strategy

CINDY ESTIS GREEN, MARK V. LOMANNO & DAVE ROBERTS

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AAHOA is proud to be a sponsor of *Demystifying the Digital Marketplace & Guide to Commercial Strategy*. It offers powerful, new insights into the direct relationship between segment and channel management practices and a hotel's valuation. This update breaks down the complexities of the digital marketplace in a way that will be beneficial to AAHOA's nearly 20,000 owner members.

With this new work, Kalibri Labs solidifies its role as a leading authority on benchmarking hotel performance based on profit contribution and helping hotels with crucial market intelligence to improve asset values. This book is a must-read!

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Demystifying the Digital Market & Guide to Commercial Strategy

CINDY ESTIS GREEN, MARK V. LOMANNO & DAVE ROBERTS



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The sponsors and data providers were supportive in both study execution and provision of data but did not participate in the analysis and the findings do not necessarily reflect their opinions on the subjects conveyed in the study. The various data sources were synthesized and analyzed by the authors to develop the themes that are reflected in the book.

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Welcome

Dear Hotel Industry Stakeholders,

In this time of rapid change as we face post-pandemic realities, the hotel industry is hardly alone in managing the disruption borne from large technology companies that dominate the digital marketplace. Retail, financial services, music, automotive and many others, certainly including hotels, are trying to navigate this dynamic environment.

Compounding the limitations in the access to and cost of labor, the changes in consumer behavior for both leisure and business trips has added to the challenge for hotel owners and operators. It is not “business as usual” and adapting to new demand profiles with fewer staff requires a different approach. **In order to sustain a healthy hotel ecosystem, it has become paramount to focus on asset value as an industry measure of success.**

Kalibri Labs is releasing this 6th update in the Demystifying series, to kick off access to education, data and tools to enable hoteliers to create their own Commercial Strategy Playbook and thrive in spite of the headwinds. The framework and constructs are designed by Kalibri Labs with extensive input from owners, operators and brands who all seek models that will sustain them through the turbulence expected in the coming decades. The focus of commercial strategy is on growing asset value and the approach and techniques will inform stakeholders both at a property and above property levels, from senior operations, and general managers, to revenue managers, sales, digital and finance teams.

In support of this effort, we are excited to announce we are launching Commercial Strategy certification, and in conjunction with our partner industry associations, it will be available before the end of 2023. Once certified, each team can adapt the study materials to their own individual portfolio and organizational structure. For more information, contact KalibriLabsCertification.com or scan the QR code below.

We are grateful for the support of Hotel Business who recognized the need to provide a forum to have this important dialogue on ways to adapt in the era of digital disruption. AAHOA, the largest association of hotel owners representing almost 60% of the U.S. hotels, the IHG Owners Association and the Hotel Asset Managers Association (HAMA) have taken a leadership role in recognizing the need to raise awareness throughout the hotel community on methods to improve asset values. In addition, key organizations with a global perspective, including HFTP and HSMAI, representing financial, technology and commercial teams are all supporting efforts to build effective tools for commercial strategy to meet the challenges of the coming decades.

We look forward to participating in the dialogue that has followed each previous release of a Demystifying book.



Thank you for joining us as we set out to sustain a healthy hotel industry!

Cindy Estis Green



Mark Lomanno



Dave Roberts



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DATA SOURCES AND METHODOLOGY

Kalibri Labs maintains an active repository of data with history back to 2015 representing over 40,000 hotels; the database is updated with ongoing daily or weekly data delivered directly from individual hotels, small chains, and large brands. The data contains daily hotel transactions and booking costs with details by rate category, channel, dates of stay, rooms occupied, revenue spent and many other variables. It is shared with permission from the data providers and aggregated in a way that protects the confidentiality of all individual hotels, brands, and companies. The data is mapped to 19 industry standard rate categories and 8 booking channels with many calculated data points added to the database to enable analysis by chain scale, price tier, length of stay, lead time and many geographic breakdowns.

In addition, several algorithms are applied to the data to enable reporting on both historical performance and future forecasts for every U.S. hotel on a daily basis. The individual hotel performance is then rolled up to competitive sets, chain scales, location types (e.g., major metro areas, rural/highway, resort et.al.) or other geographic groupings. Kalibri Labs has defined 334 markets and 975 submarkets in the U.S. with boundaries based on density of supply so hotel groupings make sense for real estate development or operators who want to compare a hotel's performance to a meaningful cluster of similarly situated hotels. This data was used for the analysis throughout *Demystifying the Digital Market & Guide to Commercial Strategy*; the citations are attributed to Kalibri Labs where the data trends and patterns were derived and transformed from the company database.





Digital Disruption

10 THINGS YOU NEED TO KNOW

1. Rise of the Gatekeepers

Long anticipated changes have come to the hotel industry lead by Google where the majority of search begins, with substantial development in the Google Hotels site where travelers can research options, get hotel information and make bookings. Multisearch, combining images and text and YouTube are now playing a bigger part in the consumer process. Google is putting more efforts into enabling bookings direct to hotels. Airbnb dramatically expanded its footprint in hotel travel; and Facebook (now Meta) expanded use of Instagram and other multimedia assets; TikTok is competing with Meta for the Gen Z and Millennial cohort, highly influenced by social media; Uber is fast entering the scene well beyond transportation; Microsoft's Bing is looking to leapfrog Google with its OpenAI partnership and the financial technology companies such as Capital One and JP Morgan Chase are additional platforms quickly entering the fray. These tech titans may offer more distribution options to hotel chains and individual owners and operators to reach consumers, but they may also create a veritable firewall between hotels and their customers with a growing array of media and transaction fees to gain access. As these large tech titans cast immensely wide nets in the consumer ecosystem, Wall Street is rewarding them with outsized market capitalization values relative to traditional hotel brands and real estate owners.

2. The End-to-End Customer Journey

In the early days of the digital market, the focus was on the shopping and buying stages in the traveler's journey. Hotel brands, OTAs and metasearch sites were concerned about attracting the attention of the consumer to shop and buy on their site. The priority is now to own the full customer travel experience including the guest's arrival, stay, dining, local destination experience, payment and post-visit review. Many tech titans and hotel brands are competing to create apps that appeal to consumers throughout their travel journey. There are many vying for being the "super app" like WeChat is in Asia but questions abound as to the viability outside of that region as payment is a big driver and consumer behavior differs on that around the world. Google, Uber, Microsoft, Twitter are a few that have staked a claim to that title. They don't need to be the merchant of record, they only want to be the point of entry and collect the ad revenue from those who want access to the travelers, tollbooth-style.

3. Cost of Acquisition is Rising

As more third parties are entering the travel industry, and the OTAs and wholesalers are distributing their inventory in more channels, hotels continue to pay fees on a growing percentage of their bookings, including groups. When OTAs, brands and metasearch are all competing for a presence on the same large tech platforms, it raises the cost of the entire ecosystem. Ultimately, hotel owners and operators foot the bill and at 15-25% to acquire their customers, these costs will challenge profitability especially when combined with increasing labor, construction and energy costs. Negotiating for leverage in this ecosystem is at the heart of commercial strategy and will be the emerging discipline driving hotel owners and operators with the North Star being sustained asset value growth. Another major factor is the changing consumer shopping behavior, where multi-channel is becoming the norm with consumers tapping different media—and hotels need to support that with video, blogs, FAQs, and other rich content in order to show up in search results at all. It is more than a cost per click, but increasingly considering the cost to develop and manage the content. And from a hotelier's point of view, when business is truly direct, it has to come to the hotel or brand website or mobile app without picking up other intermediary costs along the way.

4. Major Lines of Defense for Large Hotel Brands

The large hotel brands have deployed a few methods to defend themselves against the strength of the tech titans. First, the loyalty programs have proven to be powerful forces that are driving more business through the most profitable Brand.com channel and this business is building a solid and recurring base paying premium rates over third-party business. Extending the loyalty value for brands is the affinity credit card revenue, although these longstanding programs may have some changes ahead as the banks take a bigger position in travel. A second line of defense is by controlling inventory so that the most compelling and differentiated products, premium services and inventory are only available through direct channels. That means that selling early arrival/late departure, mobile check in services, keyless entry, selection of specific room types, connecting rooms, or rooms with specific amenities are only sold through the brand site and not available to third parties. Without access to this level of inventory, any large tech companies will be at a disadvantage with consumers who will want to access all booking options afforded by the enhanced inventory creating a bias



toward booking direct with the hotel brands. There is also a factor related to inventory control through their revenue management systems (RMS); if access to rooms for the OTAs can be controlled, hotels can be sure that more rooms will be available for sale through the lower cost direct channels and enable a hotel to more easily build a direct connection to the guest.

5. The Evolution of Accommodation Supply

There is a spike in growth in short term rental and alternative accommodations. The lodging landscape is changing and there are new models that are adding to the supply without construction of new hotels. Leased apartments being rented as hotel suites along with upscale hotel-comparable condominiums are now entering the supply in many major markets. Sonder, Kasa and Mint House are examples of this model. With the OTAs actively expanding their offerings well beyond hotels into short term rental, flight, tours, attractions; Airbnb evolving into a next-generation OTA, and Google allowing consumers to toggle between hotels and vacation rentals, these new lodging offerings have ready access to consumers through many distribution platforms. Even the large hotel brands are participating in the emerging world of alternative accommodations. This will affect each market differently but the need for hotels to understand the profile of demand in their individual market is critical.

6. The Digital Market, the Economics of Hotels and Shifting Consumer Behavior

The dramatic changes in the digital market will have implications for institutionally funded companies—hotel brands, REITs, private equity—as well as private owners and operators. There will likely be more M&A activity by hotel brands to gain scale for improved leverage with the large gatekeepers. A greater emphasis on acquisition costs and profit contribution will be necessary to evaluate and predict hotel performance when topline revenue growth is no longer highly correlated to bottom line profits, and therefore asset values. The growing complexity of the distribution landscape will call for a more granular view of demand so hotel brands and owners/operators can be more surgical and intentional in their

decisions around the business they decide to pursue. It will be critical to assess not only the cost of acquisition, but equally important is the access to the customer. Understanding the behavior around media-driven search that may evolve with AI will also factor into the issues around both cost and control. Assessing customer cohorts with a lens of lifetime value (that is, recurring stay patterns) will be necessary in the emerging digital market. Some technology challenges may exist in aggregating the consumer profiles in order to appropriately address high priority customer groups since not all may fall neatly into a hotel company's loyalty program. New data sources will need to be tapped to better understand consumer behavior. The hybrid work model has persisted and this is forcing changes in commercial strategy but also offers opportunity. The post-pandemic shift in demand away from a legacy base of large Fortune 1000 corporate accounts to one driven by leisure travelers and local and regional accounts calls for a change for brands and independents alike in pricing, sales and marketing techniques.

7. Fallout Ahead: OTAs, GDSs and Bedbanks

While hotels feel the impact, the legacy distribution players are also scrambling to find ways to develop alternative revenue streams when their mainstay business is challenged by the combination of a potential softening economy and the certainty of the rise of the tech titans. They will evolve to offer alternative services to the same or new customers like Amadeus offering reservation technology solutions or Expedia providing package technology to hotel brands while blending Expedia and VRBO inventory on its channels. They may also team up with each other like the recent growth in OTAs and Bedbanks supplying rates and inventory to GDSs and Travel Management Companies (TMCs). There is a mighty push by the legacy OTAs, Expedia and Booking.com to expand the reach of their loyalty programs and shift the balance to direct mobile bookings so they can avoid the high cost of acquisition as metasearch and other intermediaries are so prominent in the consumer sales path.

8. Financial Technology (Fintech) is Here

What started as a way to offer expanded and creative payment options for travelers may overtake



the legacy OTAs and the hotel brands as a primary conduit for U.S. hotel bookings. The credit card companies such as Capital One in partnership with the fintech driven OTA, Hopper and JP Morgan Chase (who acquired Frosch Travel and cxLoyalty Group Holdings loyalty division) seem to be leveraging travel as a way to expand the base of cardholders and their spending. Making money from cardholder interest payments and interchange fees from merchants (including hotels) enable these banks to offer lower commission rates to hotels. Their goal is to attract cardholders with travel offers; build out 'buy now, pay later' and other creative payment options and learn enough about the cardholder buying and payment behavior to engage them to expand overall spending, not just in the travel vertical. The loyalty programs are robust and include many ways for cardholders to redeem rewards. However, this may be directly competitive to the hotel brand loyalty programs (with their own affinity credit cards) and it may divert thousands of travelers who previously used the OTA booking engines. With the exception of the highly specialized American Express Fine Hotels & Resorts, it's not clear if these new sites that have not yet established travel expertise can add enough value to their cardholders to become the go-to place for bookings and they are still dependent on third party affiliates for hotel inventory (e.g., Expedia powers JP Morgan).

9. Disruption Continues: Generative AI May Be More Than a Curiosity

Artificial Intelligence (AI) was thought to be a technology of tomorrow. Interesting to hear about but not expected to affect the economics of hotels for quite some time. Then 'Generative AI' appeared on the scene in November 2022 with the offerings of a few AI-driven tools by a company called OpenAI (whose primary investor is Microsoft): a "chatbot" called ChatGPT that acts like a very smart search engine offered by Bing, Microsoft's search engine and DALL-E 2 that can create exceptionally good art in response to a

few keywords. Google quickly announced they have their own chatbot called Bard. And the race is on. Chatbots can replace the current crude version of search with natural language interactions but it is riddled with questions about the ethics and risks of a 'smart bot' that may be used by rogue actors creating dangerous content, disinformation and propaganda, weapons or other undesirable outcomes. It wasn't so long ago that many predicted Amazon's Alexa would revolutionize travel booking, but it didn't live up to its hype and consumers didn't adopt the technology. However, highly likely to affect the travel ecosystem, generative AI will be important to monitor, and balancing its utility against the risks will be a big part of the conversation.

10. Data Privacy, Transparency and Control of Tech Platforms: Legislation and Policy Initiatives

With the upheaval and growth in the digital landscape for all industries, not just travel, the large tech companies are being scrutinized for issues around data privacy, transparency and the power they wield as gatekeepers to the large base of consumers using their platforms. The next decade will likely see the U.S. following the European Commission's digital platform review that started in 2016 and is now opening a new review of rules around data and regulation for the massive consumer reach of the global tech titans. In 2023, the first regulations were put in place in Europe to limit the concentration of power that could accrue to digital gatekeepers and in so doing, create a precedent for the rest of the world. Taking privacy policies into account, there are also implications for the hotels' need to ramp up collection of consumer data for online marketing in competition with OTAs and other tech giants who have access to substantial data (known as "first party data" acquired with consumer consent) now that technology to collect data on consumers passing through websites (known as "third party cookies") is no longer in use.



INDUSTRY PERSPECTIVE



Nishant (Neal) Patel,
CHO, CHIA
AAHOA
Past Chairman (2022-2023)



Bharat Patel,
CHO, CHIA
AAHOA
Chairman (2023-2024)

How long have you been in or involved with the hotel or travel industry?

>> NEAL My family left everything they had in Surat India where I grew up. They took all their savings and used that to purchase a 21-room motel in Giddings, Texas, outside of Austin. If it weren't for my family and extended family, I wouldn't be where I am today.

BHARAT I am a second-generation hotelier who learned the hotel business, hands-on at properties owned by my parents. I was born in London and moved to America in the '80s. My parent's first hotel was in Corbin, Kentucky. A few years later, we moved to Daytona Beach. I got involved in hotels at a very young age - probably around 10 or 11 years old.

How does the issue of digital distribution matter to hotel operations, marketing and/or asset management?

>> NEAL Digital distribution allow hotels to reach a wider audience, increase revenue, and boost brand awareness. However, relying too heavily on third-party channels can reduce a hotel's direct bookings and brand loyalty. Finding a balance is essential.

BHARAT It's not about billboards and call centers anymore. Understanding digital distribution is really key. Whoever wins at creating distribution channel mastery will own and influence the future.

What are the issues that you expect will have the greatest impact on customer acquisition for hotels in the next two-three years?

>> NEAL Brand mergers and brand affiliation decisions owners will need to make will strongly affect customer acquisition strategies since each franchise organization approaches this different ways.

BHARAT The lack of competition in the Online Travel Agency (OTA) space makes the current OTA channel model a target for disruption.

Artificial intelligence. For hotel owners, AI means we will already know what a guest wants and needs before they show up.

Lodging brands are rolling out requirements intended to make hotel rooms feel as home-like as possible, like vacation rental. Bigger TV's, higher quality sheets, and even more ideas on the horizon.

What is the smartest move you have seen deployed for customer acquisition in the digital market?

>> NEAL Creating Instagrammable areas in a hotel is particularly effective among Millennials and Gen Z consumers, who prioritize experiences and are more likely to share travel experiences on social media; it's highly cost effective.

BHARAT brand efforts to recapture customer acquisition through book direct campaigns, and the decision OTAs have made to compete head to head with loyalty programs.

What is the smartest move your organization has made related to customer acquisition in the digital market?

>> NEAL We use third-party channels to acquire new customers we would not be able to reach on our own and we incentivize them to book directly with us for future stays. We believe the customer experience we create will have them booking with us directly, which of course, is the most profitable channel.

BHARAT I think the smartest move anyone can make is to invest in their people.

What is the single biggest oversight or misstep that has led to a key learning related to customer acquisition in the last 2-3 years?

>> NEAL We have to avoid becoming complacent. You have to challenge everything you do, all the time. Otherwise, you may be missing ways to benefit from the fast-changing landscape of customer acquisition.

BHARAT There has not been enough focus on being proactive in learning how tomorrow's customer preferences will influence how they'll shop, book, and experience hotels.



What is the next thing that you predict will diminish in importance and gradually fade away that is currently a part of customer acquisition in the digital market?

>> NEAL As more brands and independent hotel owners offer their best deals if booked directly, customers will keep using OTAs to research reviews and pricing, but increasingly come back to book directly.

BHARAT traditional revenue management models will become much less useful in making business decisions; the classic view of ADR may fade as we find better ways to think about driving returns on invested capital.

What three things would you suggest about customer acquisition and digital distribution to have the greatest impact on unit level profit and asset valuation?

1
2
3

NEAL Invest in a comprehensive digital marketing strategy that leverages social media, search engines, and email marketing to drive direct bookings and brand loyalty.

Optimize your hotel's online presence, including its website, OTA listings, and social media profiles, to provide a seamless user experience.

Leverage data and analytics to make informed decisions.

1
2
3

BHARAT Invest in your people with education opportunities.

Invest in your product.

And pay attention to the details. This will do more to improve an owner's profitability and asset valuation than almost anything else they can do.

Given many large new consumer-facing companies with an interest in playing a role in selling hotel rooms online, how do you expect this to play out in the next 5 years?

>> NEAL Hotel brands will need to step up their game and OTAs will also face challenges protecting their market share. As alternative channels become popular, hotel owners will need to become even more agile and innovative in encouraging customers to book directly

BHARAT I remember Yahoo, Hotmail, and now we have Google. You don't know who the winners or losers are going to be. The winners are going to be, in some ways, our guests. The losers are going to be, in some ways, our industry in the sense of who will get to keep how much of what guests spend relative to who provides the product and service versus who acquires and places them into our hotels.

If you had a crystal ball, what emerging technologies or business models do you anticipate could be game changers in the next 2-3 years?

>> NEAL front desk kiosks and data analytics and artificial intelligence for customer preferences.

BHARAT We have to leverage technology. That applies as much to how we attract and acquire business as in how we welcome guests and motivate them to return or recommend us. But this will always be a people business and owners who invest in and cross-train their people will always be in the best position to succeed.

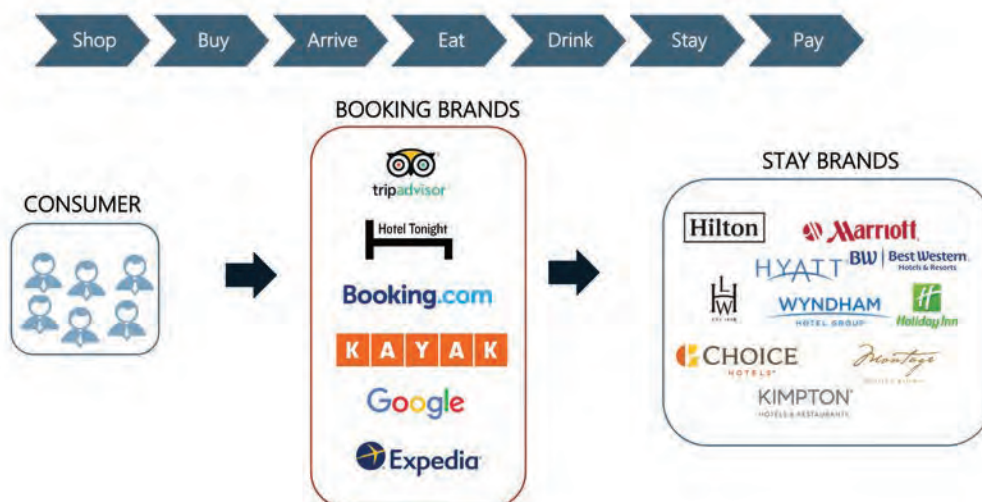




Overview and History

The distribution landscape continues to be dominated by the interplay between hotel suppliers and intermediaries on three key areas: cost, control and coverage. Whether it's the cost of customer acquisition, who controls the customer, or which "shelf" a hotel should be available on, the dynamics of intermediation in the distribution landscape are at play. Each of these facets will be examined, but as stated in the 2018 Kalibri Labs research publication, *Demystifying the Digital Marketplace*, in the early years of the digital market, hotels tried to be available "on every shelf" but most have realized at this point that (1) it costs too much to be prominent in every distribution channel and (2) the prominence of third party intermediaries in the consumer path can alter and sometimes disrupt the relationship between hotel and consumer.

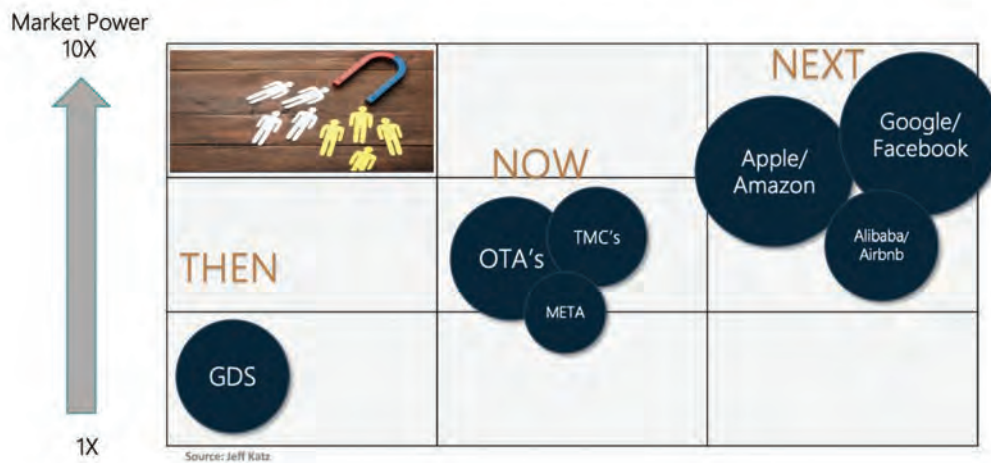
Historically Travelers Booked Directly with Stay Brands *Booking Brands Now Dominate Consumer Point of Entry*



Over the period from 2000-2015, there was a steady growth in intermediaries providing an aggregated view of hotel inventory for the convenience of travelers. The third-party booking volume mushroomed after 9-11 and the 2001 recession and some felt these online vendors were stimulating demand for travel at a time when many chose to stay close to home. However, after examination of historical trends, it appears that incremental growth was nominal at best; the dynamic at play was characterized more by a shifting of demand between hotels in a market. With many hotels chasing limited demand in local markets and strong rate competition, combined with suboptimal rate integrity by many hotels, consumers got the general sense that these third parties were the place to go for discounts. As the economy ticked up, they became a mainstay for many travelers getting in the habit of finding a wide variety of options in one place. Beyond OTAs in the 2001-2010 period, metasearch players such as Kayak and Google emerged, adding to the consumer shopping activity. As the OTA volume grew from 1.4% of total hotel demand in 2001 to almost 12% by 2015,¹ consumers increasingly tapped online sources for booking, causing the emergence of a dichotomy between third party "Booking Brands" as the place to start the travel process, and hotels being viewed as "Stay Brands," that is, the place to stay but not necessarily the place to book the reservation. As more intermediaries emerged, the shopping and booking dynamic started to change and the relationship between hotels and their guests has continued to change with it.



Rise of the Gatekeepers



Rise of the Gatekeepers

From 1980-2000, the Global Distribution Systems (GDSs) expanded rapidly from their original role as reservation systems for travel agents booking airline tickets to independent distribution platforms in their own right. But while their dominant role was to support airline travel, their footprint in hotels never really exceeded about 10% of the business volume and was limited to distributing to corporate account-driven travel management companies (TMCs). From 2000 to 2020, the leisure-focused online travel agencies like Expedia in the U.S. and Booking.com in Europe grew fast alongside the metasearch such as Kayak, Google and Trivago with the OTAs reaching 16% of room demand in the U.S. by 2019. The travel management companies like American Express and BCD also knew they had to create new value beyond their original base of large corporate accounts but have had modest success in doing so. As we move through the 2020s, it's clear that the large technology companies such as Google, Facebook/Meta, Airbnb and at some point, potentially Amazon, Alibaba, and Apple may gain traction as evidenced by their dominance in other industries.

It is technically possible that these consumer centric companies could start taking a percentage fee for each booking made on their devices similar to the subscription models in music like Spotify. On the other hand, the dominance of Google in search has led to growth in the cost of customer acquisition for other digital tech players and following the lead of Airbnb with its mobile first model that drives consumers direct to its app bypassing search engines, the OTAs are working at breakneck speed to avoid Google and other metasearch tollbooths. Expedia is consolidating its subsidiaries (e.g., Hotels.com, Travelocity, Orbitz, Hotwire, Trivago, VRBO et.al) to build out a single back-end technology and focus all elements of their business on loyalty-like models where consumers coming direct to Expedia may get free travel as they book more paid stays, for example, one free room for every 10 booked. Expedia also announced OneKey, their unified loyalty program launching in 2023 and they claim 154 million members (by contrast, Marriott Bonvoy reports 160 million). Of course, Expedia's is directly competitive to hotel chain's loyalty programs which offer more than points or stay redemptions but also stay-related benefits such as mobile check in, digital key, room upgrades, early arrival/late departure, and other rewards that a third party would not be able to deliver. The third parties may find themselves disadvantaged to the large brand loyalty programs in terms of delivering "crea-



ture comforts” to the guest beyond free rooms, but may continue to be attractive for value conscious infrequent leisure travelers. Without an affiliation to a larger soft or traditional brand, independent hotels may participate with the third parties in offering these types of benefits, but consistent delivery of on-site services beyond the traditional points-based model of “free room for paid stays” may be difficult to execute during a hotel stay and thereby limit the appeal of the OTA programs. To mitigate that problem, the OTAs are pushing for value-add on-premise benefits for their loyalty members during their stay (similar to AMEX Fine Hotels & Resorts program) as they continue to take advantage of the fragmentation of the hotel industry by working with the small chains and independents that don’t have strong loyalty programs.

A Value Shift Has Been Underway

With the emergence of the OTAs and other large technology companies, there has been a value shift as quantified by the market capitalization (values) of these companies in comparison to legacy hotel brands. The combined value of Hilton, IHG and Marriott is close to the same market valuation as Booking.com alone with a disproportionate value being placed on the technology companies even when their investment in the industry is substantially lower. While Google, Facebook and Amazon have restored their market caps since COVID to over \$500 billion to \$1 trillion+ and have a high level of engagement with many industries, all have intermittently shown intentions of enhancing their position in the travel vertical. The only major player still on the sidelines for travel is Amazon. At one point, it appeared the Alexa voice assistant would play a role in travel as it was expected to respond to everything from ordering a Domino’s pizza to calling for an Uber or Lyft ride. Surely, hotel bookings had been expected to follow. It hasn’t worked that way and in the world of voice assistants, Business Insider tracking had Alexa at 71.6 million users trailing Google Assistant (81.5 million) and Apple’s Siri (77.6 million) and has been called a “colossal failure,” with the Alexa division allegedly losing \$10 billion in 2022.²

A Value Shift Has Been Underway

3 Major Hotel Brands ~ 1 Booking.com or 1 Airbnb

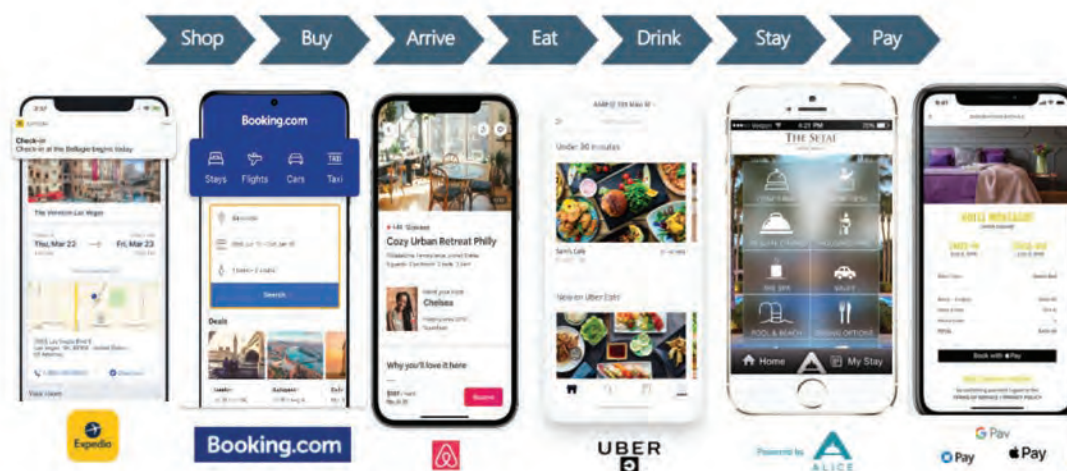


Hotels will always have the opportunity to build a relationship during the actual stay experience but risk losing out on the connection made through the inspiration, information gathering and booking phases of the travel journey. Further, the competition online for eyeballs intensifies as enhanced multimedia search becomes the norm for consumers. Third party intermediaries are focused on developing bonds to their own customers and have little incentive to facilitate the relationship between a hotel and their shared customer. They are usually brand-agnostic in terms of the hotel selected as their business model calls for consumers to come back to their site no matter which hotel brand the traveler decides to book on subsequent visits. Hotel companies, on the other hand, have an incentive to entice consumers to book on their site and come back to book the same hotel or another within their brand family.

The challenges above have been amplified in the digital age. Historically hotels could claim value individually from the entire stay, from pre-stay to post-stay contact. Over the past decade, however, intermediaries have entered the pre-stay contact for booking and are now expanding that to engage digitally with consumers in many points in the traveler's path, including onsite at a hotel. Tech titans and hotel brands alike are creating apps with the intention of offering services to consumers to serve their needs from their initial research/shopping phase through the stay and beyond. Many vendors hope to be the preferred app that all consumers would want to use to meet the needs of the end-to-end travel journey.

The Cost of Digital Disruption to Hotels

Everyone Wants a Piece of the Action...Many Tollbooths



The result of the intermediation is a steady and rapid increase in third party bookings causing a lower ratio of direct business for demand in U.S. hotels.



Revenue Capture by Hoteliers

Revenue Types

Customer Acquisition Costs are 15–25% of Guest Paid Revenue

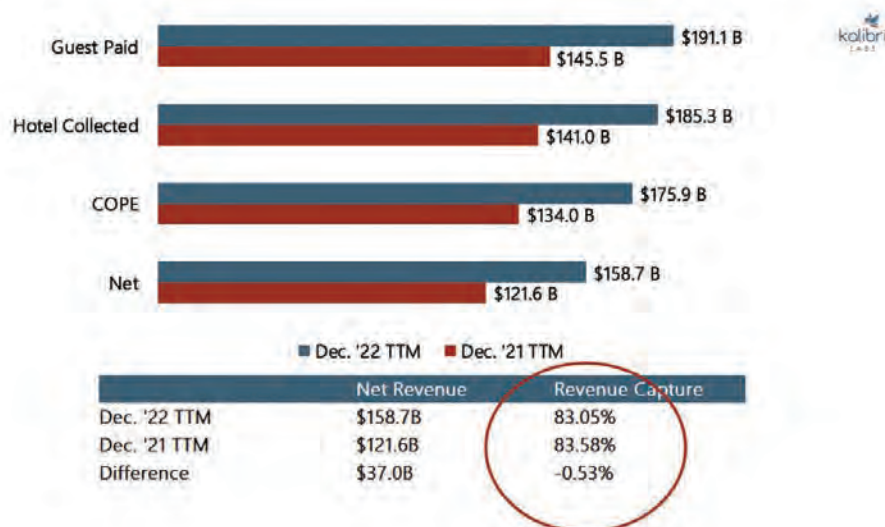


*COPE: Contribution to Operating Profit and Expense

Hoteliers can track revenue after removing costs of acquisition to determine how much they keep of the revenue paid by guests. COPE revenue indicates the contribution to operating profit and expense after booking costs are removed from guest paid revenue.

As Revenue Capture Declines, Real Estate Values Erode

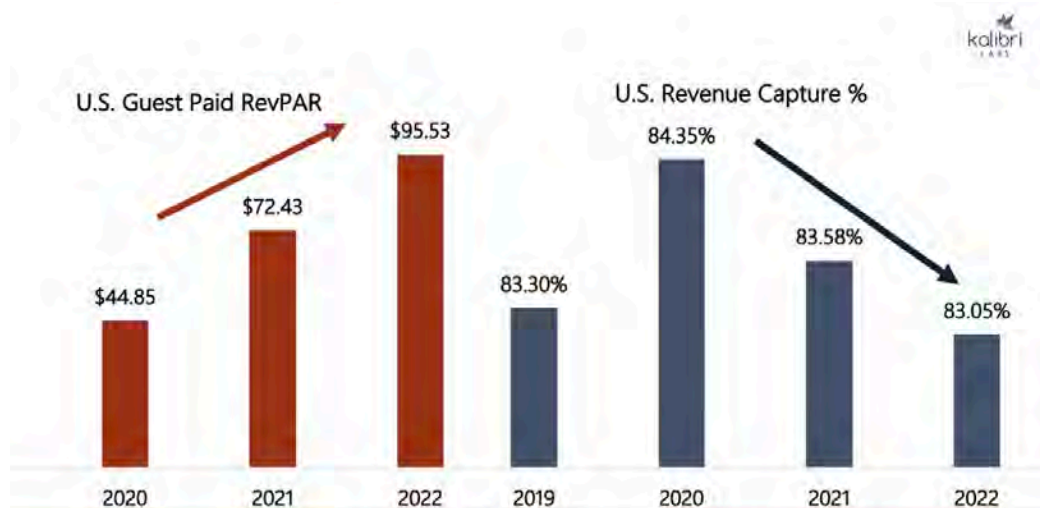
\$1.01B U.S. Revenue Capture Loss 2022 vs. 2021= \$12.6B Decline in U.S. Asset Values



The U.S. hotels took in much more revenue in 2022 than 2021 but were not able to keep as much after paying commissions and transaction costs. The decline of 53 basis points meant a drop in over \$1B in revenue capture and a reduction in asset value across all U.S. hotels of between \$12–\$13B (using an 8-cap valuation).

U.S. Revenue Capture Declines Even When RevPAR Grows

January 2019–December 2022



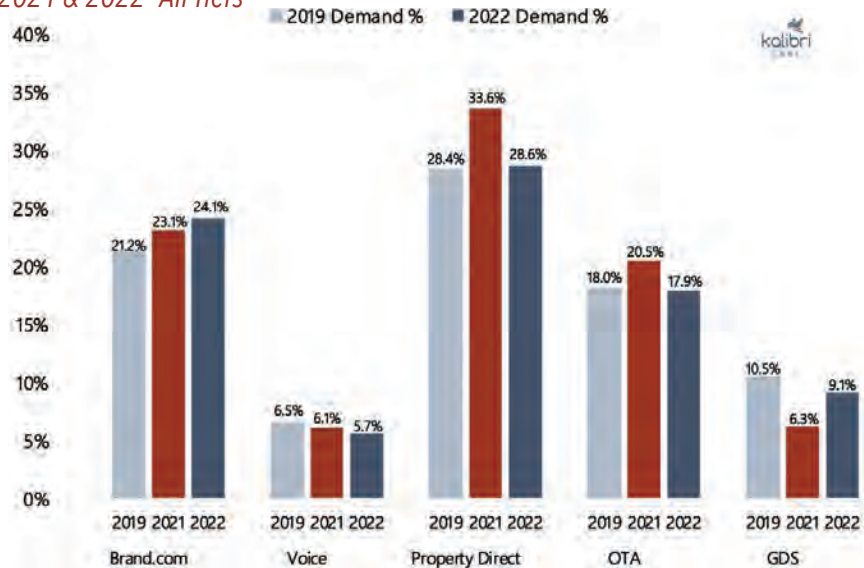
The U.S. hotel industry declined 25-40 basis points in revenue capture annually from 2015-2019 and the 2022 decline was 53 basis points as a result of higher customer acquisition costs.

Over half the business in U.S. hotels was booked online* in 2019 (51.6%) continuing a pattern that started over 10 years ago where “Property Direct” was the largest and the least costly to obtain. That drive up, walk in, call-in business is now split between Brand.com and OTA business, in a veritable horse race. Brand.com has maintained a strong lead and has held that position for the last 3 years. At this time, most Group business cannot be easily booked online and is included in these totals. If the transient business was examined in the absence of Group, the proportion booked online would be even higher.

*online includes Brand.com, OTA, GDS



U.S. Channel Mix: Over 50% Online; ~60% Thru Direct Channels 2019, 2021 & 2022–All Tiers



The demand share represented here accounts for group but is only showing the transient business segments.

Brand.com had steady year-over-year growth while Voice declined; GDS dropped and has not yet returned to its pre-COVID levels. Property Direct had an unusual spike in volume as many consumers chose to book direct throughout the pandemic so they could inquire about local safety and sanitation protocols. It has started to drop off again as consumers revert to more normal booking behavior. The OTA volume dropped off during the pandemic and recovered, but as a percentage of the total, the channel grew more slowly than others and therefore remained a smaller proportion of the total demand.





The Elements of Disruption in Hospitality Distribution

Disruption is continuing to change the hotel distribution landscape in multiple ways. It's important to separate the tactical issues of distribution related to technical connectivity for rates and inventory (i.e., the pipes through which the reservations pass) with the strategy for which shelves to occupy and under what conditions hotel products should be sold. A third component of distribution relates to content, that is, which partner(s) have access to which types of rates, merchandising media and other products in addition to the room. When electronic distribution began for hotels in the 1980s, the initial focus was entirely on basic rates and inventory and through the early 2000s, the philosophy was that a hotel should strive to 'be on every shelf'. Every distribution partner for a hotel got pretty much the same rates, inventory and descriptive content. **Given the dramatic growth in digital channels and their costs, hotels have realized they need to be more discriminating in selecting partners for distribution.**

Decisions around providing particular rates, room products, ancillary options and descriptive content to some partners and not others may hinge on how well their traveler base matches that of the hotels. Costs have multiplied in terms of both third-party fees as well as creating and maintaining direct connections; therefore, the selection of those with access to a more direct and generally larger range of inventory and content requires a high degree of scrutiny around the expected benefit. Refer to the *Guide to Commercial Strategy* section of this publication to see how the economics work in terms of profit contribution and resulting asset value when costs are accounted for in the selection of distribution partners. Partnership calls for matching consumer profiles, but it also involves sharing traveler information and enabling the hotels to develop their own relationships with their shared customer. While years of negotiation revolved around rate parity between hotels and OTAs, the discussion is now moving to *content parity* and this is likely to open new debates on the nature of partnership.

Online Consumer Behavior Evolving: Travel Experiences

Hoteliers and the investment community are cognizant of new trends in consumer behavior. There is an increasing propensity for consumers to book integrated travel "experiences" online. Consumers are expecting more integration across the full customer journey enabling the traveler to explore dining, attractions, ground

transportation and other elements of the stay experience without each being siloed in multiple apps or sites. Venture capital firms have invested heavily in start-ups who aim to reduce friction for instant booking of these experiences. Both hotel brand companies and OTAs have also disclosed their intent to monetize the activities marketplace.

Another aspect of consumer behavior is the increasing acceptance of customizing the travel experience through services offered a la carte. Driven by the airlines that unbundled the commoditized flight experience with boarding, seat assignment and meal options, hotels are in the process of building out their technology to enable what is called "Attribute-Based Selling." For guests who want to choose their own room, bed type, ensure a refrigerator or kitchen is present or pay for options like early arrival, late departure, snacks or breakfast as add-ons to their room rate, the ability to manage this inventory is being added to major hotel brand reservation systems. If the hotel brands restrict access to this inventory only to those who book direct as members of their loyalty program and users of their app, this may prove an effective strategy to gain an advantage with consumers who prefer added control over the details of their travel experience. Of course, the consumer interest in these hotel booking options has yet to be tested and the potential for confusion and complexity will need to be considered in order to gain adoption.



Shift from Shopping/Booking to the Entire Customer Journey

The basics of distribution in the early days of on-line travel booking was all about the consumer shopping and buying experience. However, with many distribution platforms seeking to engage at more points along the travel journey and a growing interest in services to address the full travel experience, strong growth in the apps and the websites have led to functionality supporting the pre-stay, elements of the stay experience and post-stay including payment and reviews.

THOSE THAT CAN DOMINATE THE CUSTOMER JOURNEY CAN POTENTIALLY BE THE “SUPER APP” THAT ALSO MAY GAIN ECONOMIC ADVANTAGES BY DODGING THE COSTS OF METASEARCH INTERMEDIATION.

The objective for many distribution platforms is quickly moving to satisfy the end-to-end needs of the traveler by providing for travel inspiration; comparison shopping; enable bookings (and in many cases hotel, flight and ground transportation), facilitate check-in, hotel room access; answer questions about destination sights and attractions, dining, bars, parking and other local needs; respond to onsite daily requests such as towels or F&B deliveries; and facilitate payment upon departure, not to mention inviting commentary to be shared with friends and family. The customer journey is the target of many including Google, Booking.com, Expedia and TripAdvisor and certainly very much within the objectives of the hotel brands too. Those that can dominate the customer journey can potentially be the “super app” that also may gain economic advantages by dodging the costs of metasearch intermediation. Consumers may choose to go straight to the all-purpose app with no need to pass through a search engine to be handed off to the supplier. This may prove beneficial to consumers by being quicker and more convenient to meet their needs and to the Stay Brands (if they are the beneficiary with the direct guest connection). However, any app with a lock on a large consumer base is very likely to push costs up as they monetize their dominant position. But there

may still be a difference between the savvy frequent traveler who is a member of many loyalty programs and the infrequent leisure traveler who may value simplicity and may not be receptive to navigate too many options on the booking path.

There are many contenders to take on the mantle of “everything app” to consumers. In December 2022, Microsoft announced it was considering following the lead of WeChat in Asia to provide one stop shopping for news, search, messaging, social networking, peer-to-peer payments and ecommerce shopping. Part of Elon Musk’s investment thesis for Twitter was reported to have the same end game—he called it Super App “X” to provide a wide range of services for consumers for interaction, payment, shopping and buying. Uber announced in Q2 2022 that they plan to go all in as a “super app” with planes, trains and hotels. The Wall Street Journal reported that Uber predicts they will reach \$1B in ad revenue by 2024.³ Knowing that the Uber CEO learned about online travel during his 12-year stint as CEO at Expedia and CFO at its parent company before that, Uber’s leadership knows what it takes to succeed. All of these rival companies are vying for king of the advertising space with an eye to overtaking Google. When enough consumers are engaged, media income will follow.

Microsoft mulls building 'super app'



The Hotel Demand Profile Has Shifted

The shift in the nature of demand for hotels since the pandemic has caused further disruption within the large brands go-to-market approach. The large brand companies built an efficient sales infrastructure that lasted for over 30 years. It was based on an assumption that if they target the largest corporate accounts, the ensuing flow of business transient and groups could fill a large portion of their hotels in the primary and second-



ary markets, and the leisure segments would play a supporting role as a distant third priority. They developed expertise and systems to secure the large national accounts with great success. Post-pandemic, the demand pyramid got turned upside down. Leisure travel became the dominant contributor to hotel occupancy and most of the national corporate accounts curtailed travel, initially due to health and safety restrictions, but later because they decided they could reduce travel costs by using remote technology for a portion of both internal and external meetings. Local and regional accounts became the most active travelers and they are also having more smaller retreat type meetings to bring together a work force that is functioning with fully or partially remote operations.

Creating a new sales and marketing model

The largest portion of the corporate market that fully resumed travel at or above 2019 levels were local and regional accounts which were not efficiently acquired as part of the legacy global sales structure and were left to local hotels to pursue. Expertise in acquiring leisure business certainly existed, but was not a core competency in most of the large brand sales organizations (except within specialized resort or luxury teams) and pre-COVID, the large brands didn't have reason to pursue local and regional accounts at scale when they could fill hotels targeting the Fortune 1000. There is now a scramble to rebuild a sales and marketing infrastructure for the new demand profile; learning how to attract leisure travelers and local/regional accounts is new to many large brand organizations. These travelers often tap digital platforms to select and book a hotel, while the legacy sales model for hotels was driven much more by a direct sales team. Leveraging direct digital channels for these new demand streams can prove to be an advantage to brands,

hotel owners and operators. With owner sensitivity to costs incurred in the centralized sales and distribution centers of their brands, there is an opportunity to benefit all parties if played out favorably.

It's not just a change for the large brands

To some degree this same shift also applies outside of the large brands. The U.S. hotel industry has largely depended on commercial business for at least half of its revenue historically⁴ and even a larger percentage within the top 50 markets. For those hotels leaning on the Fortune 1000 pre-pandemic, there will be a learning process to understand how to acquire the leisure traveler and how to identify, find and acquire the local and regional corporate accounts. It will shift resources from direct sales to digital in many cases since the channels used by these travelers skew more to digital. In this arena, hoteliers will be competing with the digital platforms that have traditionally been laser focused on leisure (like the OTAs) and with platforms that have sights set on building a growing new base from unmanaged corporate accounts (e.g., Kayak, TripActions, TravelPerk). The travel management companies (TMCs) traditionally served the large corporations that needed compliance and cost control support and booked through the GDS channel. However, the smaller corporate unmanaged accounts will use different channels. Kalibri Labs data indicates that the GDS channel has been steadily declining even before the pandemic but dropped to less than one-third (32.2%) of all U.S. corporate bookings by 2022. The way many hotels (including large and small brands and independents), learn to attract both leisure travelers through digital direct channels and local and regional commercial business through a combination of digital and direct selling is likely to have a material effect on their financial performance.



INDUSTRY PERSPECTIVE



Andrea Grigg
JLL Hotels & Hospitality
Senior Managing Director,
Head of Global Asset Management

How long have you been in or involved with the hotel or travel industry?

- >> I have been part of the JLL Hotels & Hospitality Group for over 16 years, I lead the Global Asset Management practice. I have been involved in the lodging and leisure real estate industry for over 25 years.

How does the issue of digital distribution matter to hotel operations, marketing and/or asset management?

- >> Owning the customer is the golden rule. It is frustrating to see increases in costs in sales, marketing, loyalty programs and customer acquisition. If large percentages of the business is coming from OTAs, shouldn't the staffing levels at the property and marketing costs be reduced? As a variable expense, commissions are slowly eating away at profitability.

What are the top 3 issues that you expect will have the greatest impact on customer acquisition for hotels in the next two-three years?

- 1 Consumer preferences and lifestyle changes from the pandemic call for traditional hotel brands to make radical changes to catch up.
- 2 Providing travelers with more convenience, and fast, immediate, and seamless booking experiences to address all their trip needs.
- 3 Winning the customer back; OTAs did a phenomenal job gaining market share during the pandemic.

What is the smartest move you have seen deployed for customer acquisition in the digital market?

- >> Expedia's new strategies incentivize partners to deliver better experiences by shifting more bookings to those who score well rather than ranking by the lowest rate.

What is the smartest move your organization has made related to customer acquisition in the digital market?

- >> Focusing on client-facing technology is key. Customer experience and technology are fully interconnected.

What is the single biggest oversight or misstep that has led to a key learning related to customer acquisition you have witnessed in the last 2-3 years?

- >> Limited investment in skills development of revenue managers has resulted in a wide range in performance and skills. Also, revenue managers are still not part of the Executive Committees in hotels.

What three things would you suggest to have the greatest impact on unit level profit and on asset valuation?

- >> Deliver on the guest experience regardless of which channel that guest booked
Focus on Total RevPAR, and treat ancillary revenue as a legitimate line of business (and profit).
Embrace guests' reviews and use them to win guest loyalty and create community.

What is the next thing that you predict will diminish in importance and gradually fade away that is currently a part of customer acquisition in the digital market?

- >> Loyalty and points-based programs may gradually fade away and will need an overhaul to stay relevant.

Given many large new consumer-facing companies with an interest in playing a role in selling hotel rooms online, how do you expect this to play out in the next 5 years?

- >> There is a meaningful precedent for financial institutions and travel companies working under one umbrella. The platform that delivers on the user experience will win the customer. These new entrants may erode the value of the brands' loyalty programs.

If you had a crystal ball, what emerging technologies or business models do you anticipate could be game changers in the next 2-3 years?

- >> Platforms that focus on customer behaviors and leverage guest profiles for personalization.
Use of mobile apps to communicate, order F&B, and solve problems pre-arrival, during the stay, and post-departure.
Use of technology improve profitability, increase employee satisfaction and allow us to return to serving guests.





The Digital Players

The range of players in the digital space continues to grow. At this point, it would be unusual for a guest to arrive at a hotel without having some contact with a digital channel. Whether it is to read consumer reviews, shop in multiple sites for options or research the local destination, consumers are heavily dependent on digital sources to support the planning and booking of the travel experience. The landscape is full of technology-driven sites that are vying for the consumers' attention. Hotels reside at the end of a long road traversed by the consumer as they navigate their travel options and popular stops along this path have advertising models on offer to hotels to enhance their visibility to the consumer. The competition is intense to not only entice the consumer in their shopping and booking, but also in the stay experience. Engagement is the name of the game and many digital players are looking to maintain ongoing relationships with consumers to encourage recurring bookings through loyalty programs and through creative payment offerings.

RESURGENCE IN BRAND.COM

The best example of the direct-to-consumer strategy is the hotel brand apps. They were driven by the loyalty programs with incentives that have expanded far beyond the legacy point-based programs to convenience and creature comforts such as choose-your-own-room, keyless entry, early arrival/late departure benefits and merchandise offers. The hotel suppliers' success with "Book Direct" campaigns appear to have changed consumer behavior. In a 2018 study,⁵ Kalibri Labs concluded that these campaigns have either strengthened or stabilized the growth rate of bookings through Brand.com. The loyalty programs contribute 40% to 60% of the room nights for participating hotels reaching an industry average of 51% in 2019 while the OTA channel had seen deceleration in growth as a result of these campaigns. Additionally, the Kalibri Labs research in 2018—based on analysis of 19,000 hotels and 80 million transactions—determined that Loyalty member rates through Brand.com deliver a 9% premium when compared to OTA bookings across U.S. hotels for ADR net of booking costs. In essence, while there will always be an array of demand for most hotels, the benefits of having a higher percentage of loyalty members compared to

third party bookings may prove advantageous for a hotel's optimal business mix.

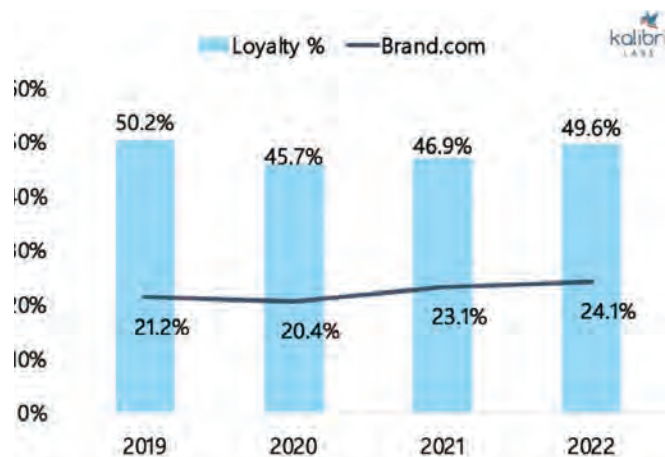
After launching the various Book Direct campaigns like the 2016 Hilton "Stop Clicking Around," there was strong evidence that hotel suppliers have convinced consumers that the benefits of membership in the loyalty programs are a solid value as loyalty contribution grew steadily through 2019 representing a continuously rising percentage of guest stays.

During COVID, the direct business spiked with travelers calling hotels to confirm safety and cleanliness before hotel visits, but this pattern normalized back to pre-COVID levels by 2022. As Property Direct declined, Brand.com remains the clear winner in consumer usage over the OTA channel. Much of this behavior was influenced by hotel brands' efforts to create incentives through their loyalty programs and by 2022, the loyalty contribution returned to 2019 levels. With so many new loyalty programs aggressively entering the market competing for the same hotel brand members, between credit card companies and the OTAs, the benefits offered to entice the guest return and the relative success of these contenders will prove interesting to industry observers.



U.S. 2022 Brand.com is 13.7% over 2019

Loyalty Contribution Almost at 2019 Levels

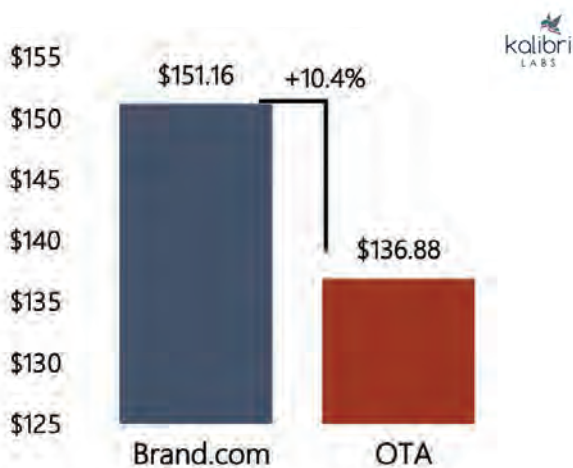


Comparing Average Rates Between Brand.com and OTA Channels

In addition to the growth in loyalty member demand, the COPE ADR (net of transaction and booking costs) through the Brand.com channel continues to exceed the COPE ADR of the OTA channel. The same pattern noted the Kalibri Labs Book Direct study in 2018 has persisted through the pandemic into 2022 with a 10.4% premium of Brand.com COPE ADR (net of booking costs) compared to the ADR of OTAs (net of booking costs). When comparing weekend and weekday bookings, the Loyalty Brand.com ADR still exceeds the OTA ADR net of booking costs. Even when the loyalty programs offer upfront benefits to retain members and provide incentives for stays with higher front-loaded costs, they tend to result in more frequent stays at higher rates and longer lengths of stay thereby providing a strong return on that loyalty investment.

U.S. Brand.com Loyalty ADR +10.4% vs. OTA ADR (COPE)

January-December 2022



COPE ADR = Average Rate Net of Booking Costs



Cookies and Data Privacy

One area to keep in mind, as the efforts around Brand.com are amplified, are some significant changes borne from data privacy concerns that affect communication with prospective guests visiting a hotel's website. There is now a move away from "third party cookies" to track visitors on a website. The privacy laws have now pushed marketers to gain consent for collecting data on consumers that are passing through a commercial website. Referred to as "first party data," it will require hoteliers to create intentional plans related to their online interactions in order to build and use consumer profiles that are both lawful and helpful in engaging more closely with site visitors. This will take some work from independent hotels and large brands alike.

THE GOOGLE CHALLENGE

Many OTAs are experiencing game-changing challenges from search engines (the travel-focused ones called "meta search"), and just before the COVID pandemic, Google appeared to be poised to disintermediate these traditional third parties, including the OTAs. Search engines have blurred the lines between direct and indirect bookings. Google tries to offer value to all sides and tries to act as a connector between users and partners, like hotel suppliers and OTAs. This position escalates costs for all contenders as OTAs are pitted against each other and against hotel brand advertisers, all of whom are competing for prominence and visibility in this primary gateway for many online travelers. Throughout 2019, the user interface at Google Hotels was enhanced significantly with the addition of many selection criteria filters, extensive mapping for

local trip planning, rate comparisons, consumer reviews, and complementing hotels with vacation rental options. Initially, Google seemed to be expanding its options for consumers to make "direct bookings" and appeared to potentially be evolving into an alternative to OTAs, but in 2021, they announced they were stepping out of the direct booking business. It appears that between the complexity of maintaining real time access to hotel inventory along with essentially competing with the OTAs who were paying them upwards of approximately \$8B per year (Booking.com and Expedia in 2021),⁶ they decided to revert back to their roots as a search engine.

Google clearly holds the dominant position in online travel advertising. They are essentially an advertising marketplace where they can capture site visitors in the "upper sales funnel" by using YouTube, search engine optimization and content marketing and move to offer opportunities to advertisers to convert to bookings in the "lower funnel" through Google Ads, Google Hotel Ads, Google Display Network, Customer Match and many other options to engage current or prospective customers.

With a renewed focus on assisting hotels in acquiring more bookings "direct via Google" to their website, Google just announced a new offering in March 2023. Performance Max for travel creates ads in multiple formats that will automatically serve across Google channels and inventory, including Google Maps, Search, YouTube and Hotel Ads (expected in the latter part of 2023). It is meant to facilitate creation and placement of ads with pre-population of a hotel's copy, images and URLs.



In spite of Google's clear dominance, there is risk for the tech giant as new entrants enter the digital travel market with apps that consumers learn to find directly. The two largest OTAs claim to have moved most consumer bookings to their app thereby avoiding metasearch costs, but this also takes media spending to maintain. With a combination of free booking links and effective multimedia search content, hotel brands and others seeking direct bookings are on a path to compete and many have said they can do so effectively.

FACEBOOK/META

Facebook, now known as Meta, has not missed the cue from Google on how lucrative the travel market can be to their online media aspirations. There are a number of assets Meta leverages for travel including Facebook, Instagram, WhatsApp, and Messenger that rely more on visual and interactive techniques than transactional online ads. Less focused on search, Meta offers a variety of options to travel advertisers and claims to be an excellent path for a variety of media approaches. They know they are up against TikTok and Google's YouTube to leverage the growing strength of the "influencer" community, particularly for the Gen Z cohort (birth years 1997-2012) but certainly including some of the large Millennial cohort (birth years 1981-1996).

Meta/Facebook Key Online Opportunities

1. Increasing engagement with video ads on Facebook and Instagram
2. Ads that Click-to-Messenger
3. Reducing costs and improving number of downloads of a brands' apps with Advantage+ apps
4. Partnerships with content creators
5. Augmented reality and Virtual reality (metaverse)



Great Wolf Lodge uses quick 7-16 second videos with compelling graphics to attract Facebook users <https://www.facebook.com/GreatWolfWaterPark/videos/407339711281195/>

With business travel somewhat muted and leisure travel being the foundation of the post-pandemic recovery for the hotel industry, understanding the leisure market calls for some new ways of thinking. PhocusWire cites more than half of all Millennials (54%) and GenZ (57%) adults use social media to help in travel planning.⁷ The reliance on social media influencers including bloggers, podcasts, photographers and videographers is strong and growing with 84% who follow these influencers saying they rely on them for trip recommendations.⁸ Described as more authentic for brand messaging, and a more manageable way to scale advertising costs, its likely this path will expand as a messaging channel for hoteliers as it has for many other verticals such as music and retail.





Augmented reality is a natural for travel to find attractions, restaurants and sites of interest and generally get oriented to new places.

It's hard to speak about Meta and not make a reference to elements of the metaverse: Augmented Reality (AR) and Virtual Reality (VR). Without conjuring up an image of travelers wandering around airports and hotel lobbies with oversized goggles, a more realistic jumping off point for travel marketers will likely be virtual maps, illustrations of events in and near a hotel and ways to optimize landing pages using augmented reality visualizations.

How many leisure travelers use Facebook apps for travel-related activities⁹



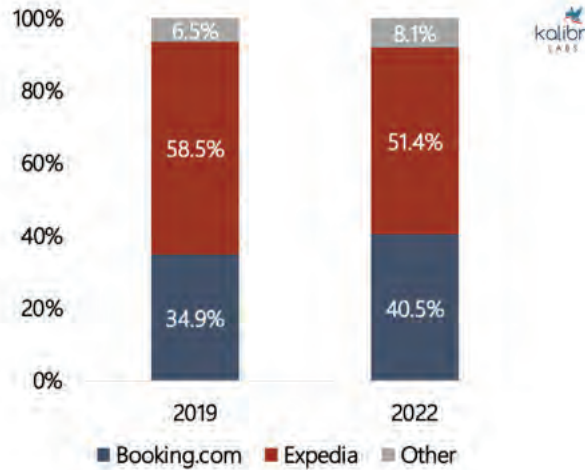
Sources: Facebook research

OTAs IN A WORLD OF TECH TITANS

This competition is forcing OTAs to make some changes and confront some economic realities. Solidly a duopoly in the large markets of North America and Europe (excluding Ctrip for now), Booking.com and Expedia have demonstrated the success of consolidation, with their 35% and 58.5% of the U.S. market respectively in 2019, which means 6.5% of hotel demand was divided between the other smaller OTAs. Expedia had the clear advantage for many years, but lost a lot of market share since the pandemic shutdowns ending 2022 with 51.4% compared to Booking.com's 40.5%; that leaves another 8.1% distributed across a long tail of smaller players. OTAs have long explored means to stay relevant in the face of the disruption by offering, for example, white-label hotel searches for airlines or other companies along with the push to their own mobile apps to reduce reliance on costly metasearch referrals. To compensate for declining consumer bookings and increased costs driven by a dependence on Google traffic, the OTAs are also trying to offer B2B services such as package engines and other technology to hotel brands (such as rate parity monitoring programs) and offering expanded alternatives to the GDS hotel inventory for travel agencies, in some cases at a lower cost. The effort to provide digital marketing, revenue management and property management system services to small chain and independent hotels and rapid expansion of vacation rental inventory are other tactics used to generate new revenue streams. At one time the biggest players in travel, the OTAs are now considerably smaller with less resources when compared to the Big Tech gatekeepers and have to address their vulnerabilities during a period of fast-moving change.

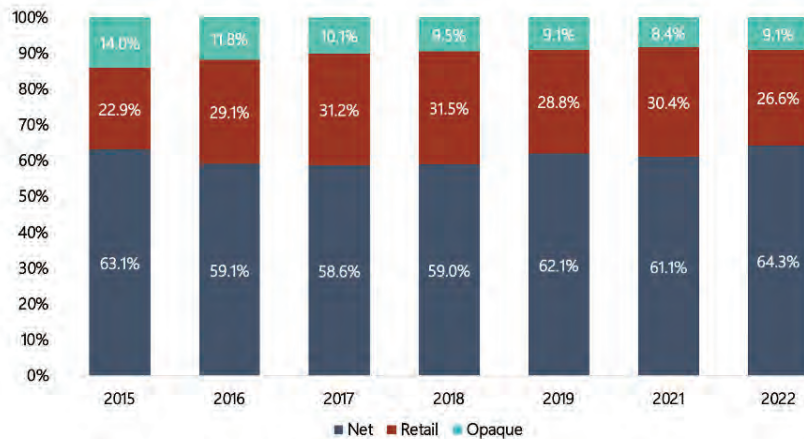


OTA Market Share 2019 and 2022 (based on room night demand)



The duo of Booking.com and Expedia are still clearly the dominant players. Market share for Expedia was 60% in 2018 so it was declining prior to COVID. Post-pandemic, they lost market share to Booking.com but the smaller players had some modest gains picking up a few points of market share since 2019.

OTA Business Model Patterns 2015-2022 (% of room night demand)



Source: Kalibri Labs

As Booking.com grew their share, they also moved to the Net/Merchant model made popular by Expedia, where travelers pay upfront for their reservations making this model over 6 in 10 of the U.S. OTA room nights. While the OTA volume increased in absolute terms from 2021 to 2022, it grew considerably slower than total demand thereby reducing the OTA percentage of the total in 2022.

[Definitions: Net/Merchant—pay upfront; Retail—book now, pay later; Opaque—pay upfront (non-refundable) based on a price and general location without knowing which hotel will be booked]



OTA Affiliate Programs

	Expedia	Booking.com
Number of Properties	1 million	2 million
Live rates and availability	Yes	Yes
Content	Rich content; 500,000 accommodations	Hotel content
Booking options	Booking, cancellations, modifications with recommendations nearby	Room booking via Booking.com and through an API

Source: Altexsoft

The OTAs do not publish how much of their overall volume comes through their affiliates, but some industry observers believe it may be 30-40%. Hotels pay the same commissions and fees for affiliate bookings as they pay for an OTA-direct booking.

The Evolving Role of the OTAs: Expedia and Booking.com

Given the changing distribution landscape, it is not surprising that the legacy grip the OTAs have had is slipping, leading to a power shift. Booking.com and Expedia, according to Phocuswire, spent over \$12B combined in 2022 marketing funds,¹⁰ and yet both are looking for new ways to thrive in the platform driven marketplace. The two OTA giants are selling backend technology to hotels to facilitate the guest experience and broaden their reach as the direct consumer base gets more diffused and they recognize that booking fees alone won't sustain their business.

Both Booking.com and Expedia are intent on expanding their loyalty programs and creating incentives for travelers to use their app and avoid intermediaries like metasearch in the booking path. Expedia has been integrating all of its brands on one backend tech platform and is launching One Key in 2023, a consolidated loyalty program that enables members to earn and burn points across all products including air, hotel, vacation rental, car and cruise. Expedia claims to have 154 million members across all brands, VRBO, Travelocity, Expedia and Hotels.com, and to be adding 2 million new members per month.

Booking.com's Genius loyalty program focuses on upfront discounts and has gotten hotels to fund this in exchange for higher ranking on its

search results. It is intentionally trying to expand its merchant model program, claiming to be at 60% by the end of 2022. Like Expedia's focus on loyalty, the CEO of Booking.com has stated they aim "to increase loyalty, frequency, spend and direct relationships over time." Likewise, the CEO of Expedia is pursuing lifetime value from its users and says the biggest drivers are "loyalty, membership and app usage." (Phocuswire, OTAs look to longer term value over time, November 2022).

Expedia Gets into Hotels

In May 2022, Expedia announced it was moving away from a price-based algorithm to drive hotel ranking on its site.¹¹ The rationale is that consumer reviews are a meaningful gauge of guest satisfaction and could influence whether a consumer will return to Expedia for another booking. Claiming it was designed to get away from commoditizing the hotel purchase with the original ranking models based on serving up the "best price", it has now enabled Expedia to enter the hotel space and participate directly in the guest experience. Expedia will collect guest feedback and use it as a major input to the ranking algorithm. For hotels who deliver a good experience, they will be "rewarded" by Expedia with a higher ranking. Based on consumer reviews and tracking interactions with hotel staff, Expedia will be evaluating check-in, cleanliness, communication, cancellations and other parts of the guest experi-



ON THE TOPIC OF FAIRNESS, THIS IS A NEW PATH FOR EXPEDIA IN ITS HOTEL RELATIONSHIPS; TIME WILL TELL IF THERE IS A BALANCED QUID PRO QUO IN THE EXCHANGE.

ence. According to the company's VP of strategy and transformation, Clayton Nelson, "over time, we will engage with and share more of those signals with partners and expose that to travelers through a guest experience score. Our goal is to build trust with travelers. At a very high level, we want to be fair," he continues, "we have the processes in place that allow for fairness." Over time, Expedia will amass consumer data about travelers' expectations and share that with others in the travel space such as airlines and travel agents. Of course, it will support Expedia's goal of building out their loyalty program and will provide a more robust picture of the end-to-end traveler journey.

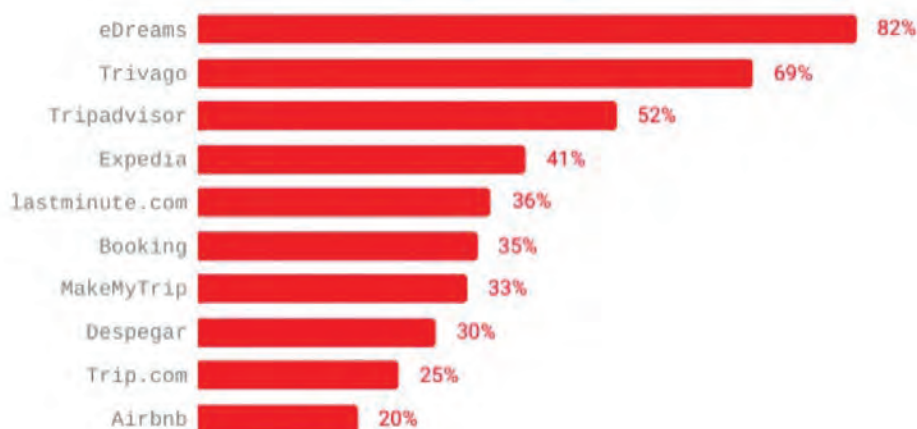
Ariane Gorin, president of Expedia for Business says, "we want travelers to have great experiences and to make sure partners get credit for the experiences they deliver. Our goal is to build trust with travelers."

Many hoteliers would assume they get credit for the experiences when their guests return, rath-

er than needing to support Expedia's strategy to have them return to book on Expedia. Some hoteliers have expressed concerns that having Expedia enter the hotel with a messaging app to respond to consumer needs such as requests for towels may compete with a hotel's ability to develop that direct service relationship rather than respond to an Expedia driven request.

There are also ample sources of consumer review data that would not require Expedia to participate in the guest experience. Hotels can get consumer feedback from their brand program or a third party that routinely surveys guests; from TripAdvisor, Google, or other generalized consumer review sites and now Expedia has come in with another mode of evaluation to ensure "fairness." Having the hotels contribute actively in order to ensure a high enough search ranking may seem to some hoteliers like they are enabling Expedia to participate (some might say unnecessarily) in their delivery of guest service and in so doing, the hotels are providing a service to Expedia to build out their new range of consumer services. On the topic of fairness, this is a new path for Expedia and hotels; time will tell if there is a balanced quid pro quo in the exchange.

Marketing / Revenues (2021)



Source: <https://traveltechessentialist.substack.com/p/the-state-of-online-travel-agencies-b86> 2022

This data shows that Airbnb has fared best in terms of acquiring direct business and avoiding high acquisition costs with Booking.com and Expedia both spending almost twice as much for marketing.



Having moved into recovery mode and survived the apocalyptic pressures of the COVID pandemic, its looking more and more like we may be entering a contest between Booking.com and Airbnb, (even though it is recognized that Expedia also has a large inventory of short term rentals). It's clear that Airbnb's rate of growth may appear to be a serious threat. Both operate with large consumer bases and large accommodation inventories with strong brands, technology and user interfaces. Both aspire to offer consumers a wide range of services to explore destinations visited. Airbnb has an economic advantage in its app-first approach that minimizes cost of customer acquisition while it can be argued that Booking.com has been around longer with fewer public legal issues, and may therefore have a stronger trust factor.

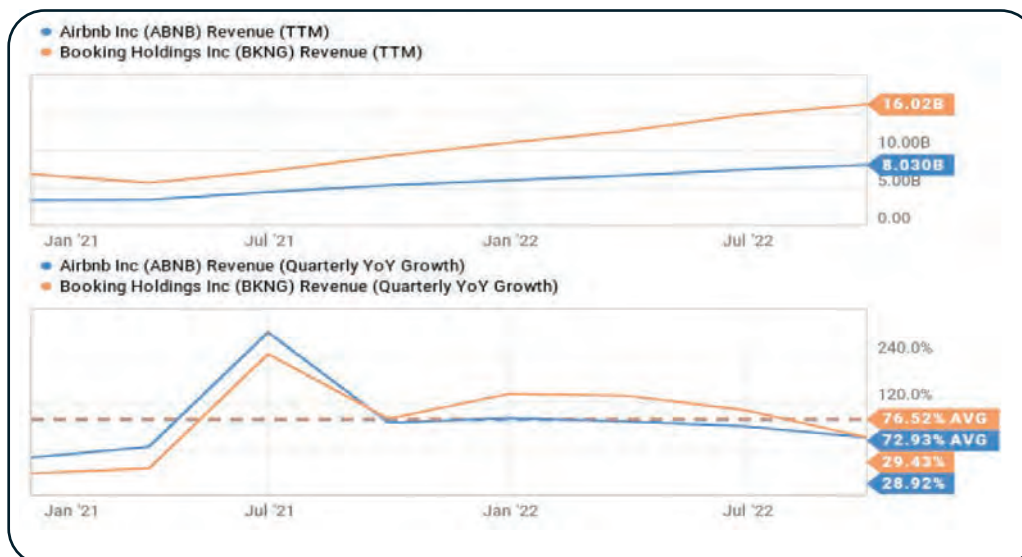
AIRBNB

Of all the new entrants that have come into the travel market and taken a serious competitive position, Airbnb may pose the biggest threat to the OTAs over the next 3-5 years. After years of denial, Airbnb put to rest any doubt about their intentions to enter the hotel space with the April 2019 acquisition of Hotel Tonight and has an expanded upscale footprint with Luxury Retreats acquired in 2017. In spite of this clear indication of intention to book hotel rooms, it does not yet appear that the Hotel Tonight app has been integrated into the Airbnb platform and after 4 years, it raises questions about their plans for hotel bookings or the role this app may play in Airbnb's future.

Over time, Airbnb has hit some headwinds with regulatory issues and consumer feedback. In January 2023, New York City imposed a new measure¹² requiring hosts to register with proof of residence at the listed location and Airbnb is prohibited from processing payment for nonregistered hosts. It is expected that this ruling may reduce available inventory in one of the largest Airbnb markets by 10,000 units down from 40,000.¹³ Although Airbnb reported record revenue and its first year of profit in 2022, negative consumer sentiment about value is more prevalent with reports about rapidly rising prices along with pushback due to hosts asking to have a lot of the cleaning and chores done by guests while still being asked to pay cleaning fees.¹⁴

Can Airbnb overtake Booking.com?

In spite of being a considerably smaller company than Booking.com with respect to revenue and profit, Airbnb is the likeliest of the large tech platforms to give Booking.com and any other OTA a run for their money. Expedia's value (market cap) is approximately one-fourth the size of both Airbnb and Booking.com with both having a large footprint although Booking has a much deeper global presence and Airbnb has a job ahead to add hotel inventory. Airbnb and Booking.com have tracked closely in market valuation notwithstanding their financial performance metrics. And when you examine their customer profiles as provided by SimilarWeb, it really looks like there may be a showdown over time.

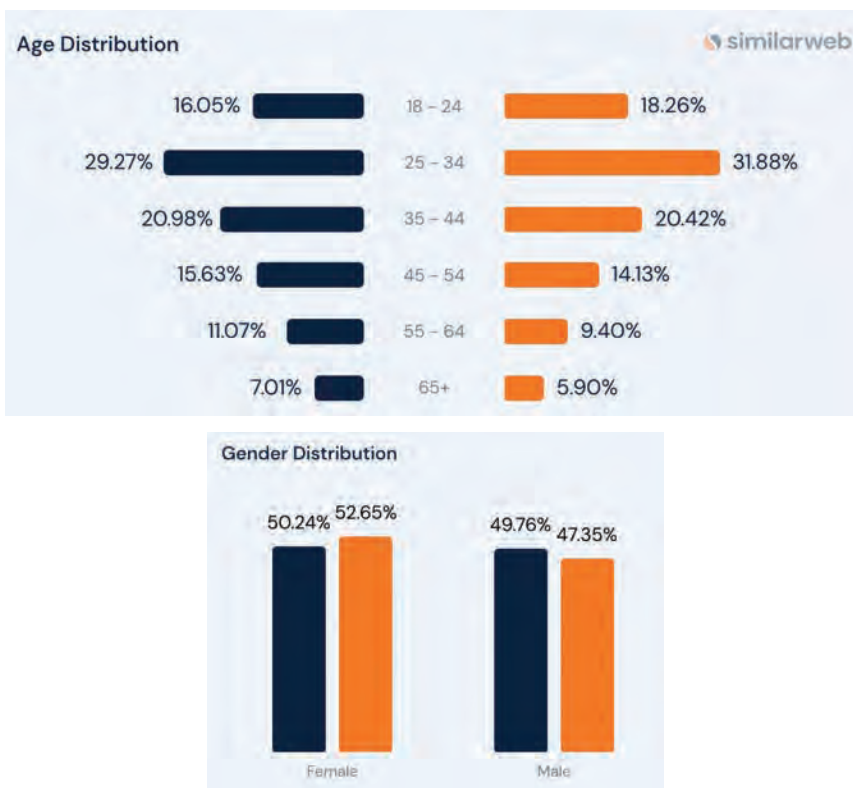


Source: Seeking Alpha





Booking.com has generally maintained a higher valuation than Airbnb but has double the revenue and runs about the same growth rate YoY.



Source: SimilarWeb

As reported by Similarweb, the age ranges for those searching online for Booking.com and Airbnb are surprisingly similar, both skewing younger with almost half being 18-34 years old. Airbnb skews more toward female shoppers but the difference does not seem material.



FINANCIAL TECH COMPANIES (Fintech)

One of the most notable trends in the digital travel market are the financial services companies that have launched large scale tech platforms. The emerging role of new financial tech platforms are a model to watch. **JP Morgan Chase** acquired Frosch Travel in 2021 and believe they can capture \$15B in bookings by 2025;¹⁵ still a fraction of the total OTA pie (~\$75B), but it's enough to cut into the market share of Expedia and Booking.com and it would make them the third largest travel agency in the U.S. The credit card companies are well situated with growing loyalty programs in place and a built-in customer base so they can bypass the search engines resulting in a reduced cost of acquisition for the financial services company. This gives them a great advantage while the card holders gain financial and service-related benefits which combined are intended to trump the OTA models. In the meantime, these companies have launched at least partially as affiliates of Expedia or Booking.com so most bookings arrive at the hotels looking like OTA bookings. At some point, these companies may pursue direct connections on inventory when the volume and conditions warrant this commercial arrangement for all parties.



JP Morgan Chase is moving aggressively into the travel space looking to take OTA market share.

Following the Alibaba model, which is largely focused on fees through their payment platform known as Alipay, the financial services companies are highly motivated to generate billings through their credit card assets. Unlike the online travel agencies who are compensated largely through commissions, the fintech companies will create

incentives to become major travel industry players; they have the benefit of making money from both the traveler and the hotel so stimulating more travel provides multiple revenue sources. Depending on the model, they can get interest income from the traveling card holder and “interchange income” from the hotel which is a fee for processing the credit card payment, along with a commission on the booking. Potentially even more powerful than the travel-based revenue stream alone, creating a point of entry for the financial services companies around travel gives

THE EMERGING ROLE OF NEW
FINANCIAL TECH PLATFORMS
ARE A MODEL TO WATCH.

them a way to offer more targeted and possibly instant offers at the point of sale that may extend beyond travel. This is something JP Morgan calls “connected commerce” that taps the customer’s current intent along with their buying profile at the point of sale offering rewards or discounts most likely to resonate with the card holder. Knowing the card holders purchase and repayment behavior will enable tailored ‘buy now, pay later’ offers that could prove to quickly expand use of the card and with it, interest income. JP Morgan contends that their card holders spend \$1 out of \$3 spent on travel and they want to have more of that spending flow through their cards and get the card holders even more likely to use the cards for non-travel spending as the loyalty and other benefits accrue.¹⁶ They aspire to control the entire shopping and buying experience and besides travel, automobiles and homes may be next, according to bank executives.¹⁷

Capital One, in partnership with the Hopper Cloud (and also a major Hopper investor) is building a hybrid model that has gotten on a path to overtake the legacy OTAs. Capital One can offer a wider range of payment options through the Hopper partnership using their proprietary algorithms that can provide assurances to the card holder that if a price drops on a flight or hotel, they will get the lower rate even if they confirmed it at the higher rate. Or they can get price alerts, freeze a price or the ability to cancel for any reason.



On the surface, the fintech companies may appear to be more attractive than OTAs since they can flex on the commission fees given their multiple revenue streams. This may seem like a natural partner for hotels to provide inventory directly to get a lower commission rate, the hotels will pay the full OTA commission as long as the fintechs remain an affiliate of Expedia or Booking.com. However, we may be having a déjà vu moment from the rise of the OTAs in the early 2000s; by enabling the growth of this business model, it may ultimately lead to ceding control of

the customer base, giving the banks the ability to pit one hotel or brand against another in terms of which hotel gets to the top of the rank order in any given destination in exchange for providing their cardholders lower rates or by paying higher commissions. The fintech platforms will not be concerned about which hotel is selected in any given destination. Under any circumstances, if this comes to pass, the hotels will ultimately be the ones to pay any commissions and interchange fees.

From self-reported data in 2019, below is a sample of some of the bank revenue models.

Company	Credit Card Interest Income	Interchange Income
American Express	\$8,620,000,000	\$4,042,000,000
Barclays	\$3,079,000,000	\$244,000,000
Capital One	\$18,349,000,000	\$3,179,000,000
Chase Bank	\$51,660,000,000	\$20,370,000,000
Discover	\$9,700,000,000	\$1,066,000,000

Source: How Credit Card Companies Make and Earn Money - ValuePenguin

If the banks can attract and retain more cardholders, they can count on a solid fee base that can be continually expanded. When you consider that Amazon has 200 million Prime (loyalty) members globally (~165 million in the U.S.) and each of which are estimated to spend \$1400 annually, Marriott claims the largest base of hotel brand loyalty members at ~160 million, but the average annual spend and frequency of purchases is likely to be considerably less than Amazon's. Now that banks have decided to enter the travel business, it is clear to see from the numbers of card holders that the credit card companies have a healthy base from which to build. They are likely less interested in commission fees, but more so in capturing the frequent and repeated usage from a credit card holder that can be incentivized to spend even more once part of their ecosystem.

A Looming Threat or A New Distribution Partner?

For the brands that depend on loyalty programs, an even larger threat may loom. If the fintech companies get serious traction with consumers, they will potentially compete directly for many of the same customers and it's not clear how the interests of the parties can be aligned. It is possible for the brands to establish collaborative partnerships to mitigate this risk, but it's a risk worth anticipating this time around. In 2000, no one expected the OTAs to gain significant market share for hotel demand and 20+ years later, hotels are now paying triple the cost of customer acquisition. Compared to the pre-Internet days hotels paid 5-7% for 10% of their business without much change year over year versus today's range of 15-25% for 50-70%+ of their business.



THE DAYS OF 'BEING ON EVERY SHELF' ARE LONG GONE...EACH HOTEL HAS TO BE WELL INFORMED ABOUT THE CUSTOMER PROFILES...AND THE ASSOCIATED COSTS.

Further, the larger brands already have existing credit card partnerships related to their loyalty programs so it raises the question if the entry by these banks will simplify or complicate those existing arrangements. For independents, they may find themselves under the thumb of yet another online tech platform. Yesterday it was Expedia and Booking.com and tomorrow it may be the fintech giants. All hotels would benefit by understanding the demand drivers in their market and choose the partners that deliver the customers that best match their objectives. The days of 'being on every shelf' are long gone. There are likely to be more options but each hotel has to be well

informed about the customers each platform can deliver and the associated costs.

As with any other third party, the primary leverage by the hotels will remain control of the guest experience—digital and analog—upon arrival and during the stay. The objective is to build their own base of business by creating a reason for the guest to refer others or to return that the booking partner cannot replicate.

Company	Active Cardholder Accounts	Interest Per Account	Interchange Per Account	Total
American Express	62,700,000	\$36.93	\$60.43	\$97.36
Barclays	16,300,000	\$180.50	\$18.50	\$199.00
Capital One	62,100,000	\$172.31	\$34.09	\$206.40
Chase Bank	82,800,000	\$118.58	\$21.13	\$139.71
Comenity	9,589,510	\$368.45	\$15.25	\$383.70
Discover	38,700,000	\$191.23	\$17.40	\$208.63
Synchrony	36,700,000	\$243.38	\$16.43	\$259.81

Source: <https://www.valuepenguin.com/how-do-credit-card-companies-make-money>

Hopper operates its own online travel agency, in addition to powering Capital One through its Cloud service for third parties. It de-risks booking for consumers using fintech tools through its algorithms to help predict prices, freeze prices, guarantee refunding any difference to a drop in price or paying cancellation fees. Further, the company engages its consumers in what they call social commerce.

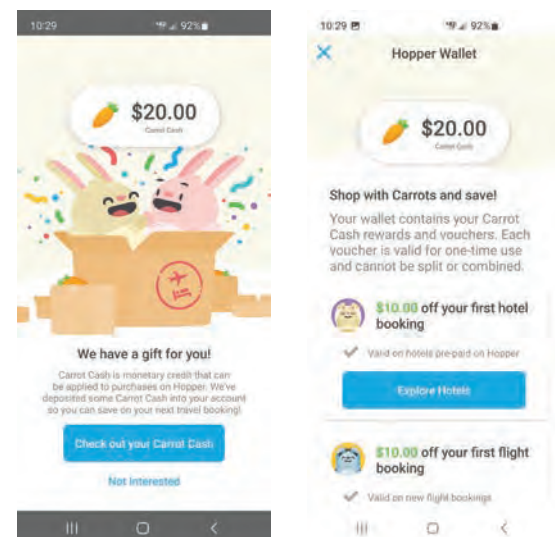
What's new for Cinco de Mayo



What's New for the Cinco de Mayo (5/5) sale:

- **Loot Boxes:** Keep an eye out for new Piñata Loot Boxes! These promotional gift boxes can be purchased during the sale, unlocking specially curated deals on Hopper.
- **Daily Lightning Sales:** During the first 3 days of the Cinco de Mayo (5/5) sale, Hopper will be giving out an extra 25% or more discount during a special 4-hour window. Keep an eye on the app to take advantage of the extra savings!

Social Commerce by Hopper



Modeled after a few online companies in China and the UK (pinduoduo.com, duolingo.com and Shein.co.uk), the concept is to move from the legacy online commerce to social commerce and gamification that pays the traveler to participate, rather than paying Google or Facebook for visibility with consumers. They allow the consumer to play games and participate in fun activities to buy vouchers or coupons. For example, they sold digital pinatas for between \$5 and \$14 with virtual credits that fall out when ‘struck’ by the Hopper brand’s bunny. They offer ‘carrot cash’, a currency like loyalty points that accumulate for the traveler and can be used on future travel. Hopper’s CEO Frederic Lalonde said, “fundamentally, we’re funding digital products. We sold more pinatas that day [when the pinata offer was made] than flights. People are putting money into the Hopper app for virtual products. Its real money. This both makes travel more affordable and enables Hopper to acquire customers who will not buy their travel with a rival brand. There is magic in that.” Lalonde claimed they had budgeted to spend \$200m in 2019 and were Tiktok’s largest advertiser and in 2022, they reduced external ad spending to almost none, instead using the funds to give cash to Hopper users for acquisition and retention. It’s worth noting that the majority of the inventory sold by Hopper is sourced through the OTA affiliate programs carrying the OTA fees versus direct contracts with hotel chains. It may seem that it would be less costly for the hotels to pay a lower direct fee, but then they may become

beholden to Hopper due to its grip on the consumer the hotel wants to attract directly.

GLOBAL DISTRIBUTION SYSTEMS (GDSs)

Another group of incumbents entangled by industry disruption are the Global Distribution System (GDS) companies. The three majors at the intersection of hospitality and technology are Sabre, Travelport and Amadeus. It is important to recognize that the GDS companies have two divisions: (1) legacy travel agency distribution originally established to support airlines and (2) hospitality solutions. The hospitality groups have offerings along each step of the booking through stay process. Solutions include next-generation retailing—e.g. data-driven metrics to drive rates—all the way to reservation systems—including attribute-based selling—and they aspire to offer the front-end PMS services as well. As Sabre noted in a past presentation to their investors, they see the largest opportunities in hospitality echoing what the GDS faced in the past with disruption for airlines: large enterprises increasingly outsourcing reservations and PMS services to technology companies. Accor, IHG and Marriott are examples of large chains that have recently partnered with the GDS companies for distribution services related to enterprise solutions. Other areas of opportunities may include pricing and inventory management and personalization technology embedded in the sales path.

	Amadeus	Sabre	Travelport
Airlines	500+ airlines	400+ airlines	300+ branded fare airlines
Hotels	1,000,000+ properties	1,600,000+ properties	140,000+ properties
Car rentals	69 car rental and transfer providers	40 car rental brands	38,000 car rental locations
Cruise and ferry lines	34 bookable and 100+ searchable cruise lines	20 cruise lines	50 cruise and tour operators
Railways (companies)	90+ rail carriers	50+ rail carriers	14 rail carriers

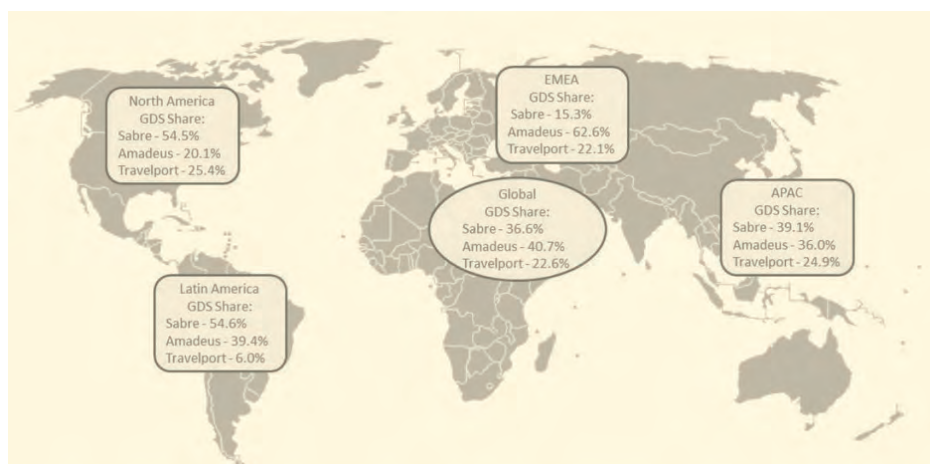


The GDS's survived the arrival of the OTAs over the last 20 years but the technology field has gotten considerably more crowded. They lost much of the leisure business to the OTAs but the walled garden of corporate negotiated rates through managed travel providers has protected them; they are now at heightened risk with new connectivity options and new marketplace players and consumer behavior changes pointing to an increase in mixed commercial and leisure bookings and a decline in managed travel. Looking to the future, the expectation for GDS companies to be resilient during an economic downturn is based on their experience during previous recessions: flat booking fees (rather than a percentage commission) insulated them and allowed them to gain share. Hotel brands have seen them as an increasingly high cost channel and have pushed hard to reduce fees. They see the GDS more as a facilitator on the contracts with the agencies or corporate account and less as a driver of demand. Besides the threat to the GDSs, there are pressures on their core customer, the Travel Management Companies (TMCs) from their corporate clients reducing fees paid for traditional agency services. What is less clear is how the legacy GDS companies will fare in facing the upstart challenges from other enterprise vendors, such as the OTAs who are known to be more nimble and tech savvy with consumer facing applications. Some new realities

have greatly diminished the once protected position of the GDS in the corporate travel arena. GDS inventory alone is no longer adequate to meet the needs of the corporate traveler as OTAs and wholesalers are now a growing new provider of inventory to both the GDS as well as directly to Travel Management Companies (TMCs). By tapping this new source, the GDSs are assured they will get a revenue share from the booking fee being an affiliate to their third-party partners in the event the OTA or wholesale rate is better than the direct-sourced rates to the GDS.

Another area of contention related to the GDSs and hotels is around content. When hotel companies supply content such as room inventory and rates to the GDSs, the legacy agreements were flexible on the ability of the GDS to monetize that inventory in many ways. Hotel companies are becoming more specific about the usage of that inventory and requiring permission for its onward distribution. Further, for decades, the GDSs collect transaction fees from hotels and use those funds as an incentive to get the travel management companies (TMCs) to use their systems. Pushing back on being used as part of the incentive-based business model between GDSs and TMCs, some hotel companies have expanded direct connections to the TMCs to reduce these intermediary fees and remove the GDS from the equation.

GDS Market Share by Global Region



Source: Sabre

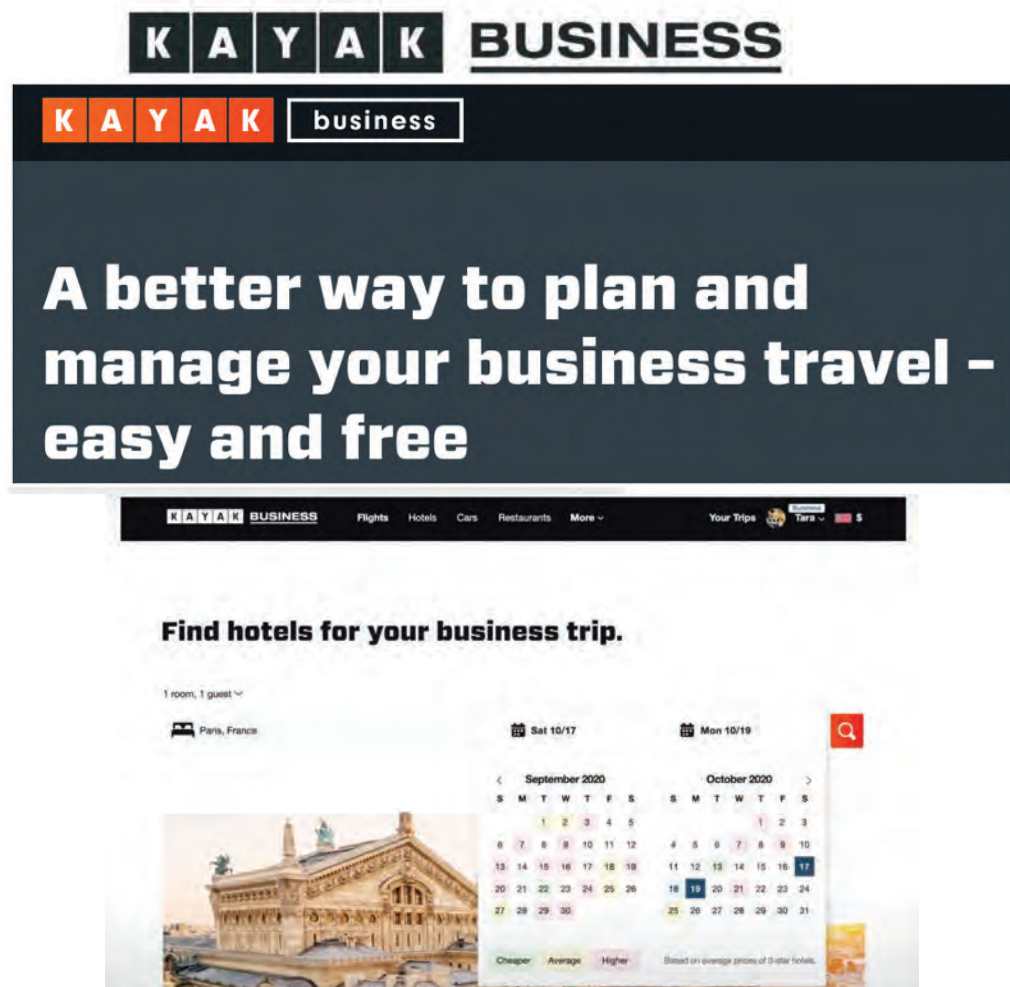
Although dated from 2015, this market share approximates the relative strength of the GDSs in major regions globally.



TECH FOR CORPORATE BOOKINGS

Before the pandemic, the largest base of corporate business was generally the Fortune 1000 accounts that booked both business transient and commercial group. Hotels continue to work with RFPs for large corporate accounts and Travel Management Companies (TMCs) involved in managed travel. But this space is ripe for disruption and many startups are emerging. About half of the U.S. hotel room revenue is driven by a commercial trip purpose which puts the value at about \$100B but the direct corporate component of the business globally is estimated to be closer to \$300B.¹⁸ Industry observers cite an AMEX estimate that the unmanaged business travel market is larger than the managed portion. To that end, there are technology companies that are focused

on the business transient sector to facilitate bookings. For example, TripBam scans hotels in a market for its subscribers so they can cancel and rebook for the lowest rates while companies like Rocketrip run an algorithm to reward travelers for saving their company money by choosing lower cost flight or hotel options. Kayak, Sonder (in spite of restructuring and downsizing in Q1 2023), Placemakr and Airbnb are all laser focused on the corporate travel market to offer attractive options for booking and staying. Kayak claimed over 3,000 accounts had already signed up in the first three months of post-COVID launch as of July 2021. Other companies include Spotnana, Onriva, Tripactions and TravelPerk. Booking.com is also building out its own corporate travel portal.



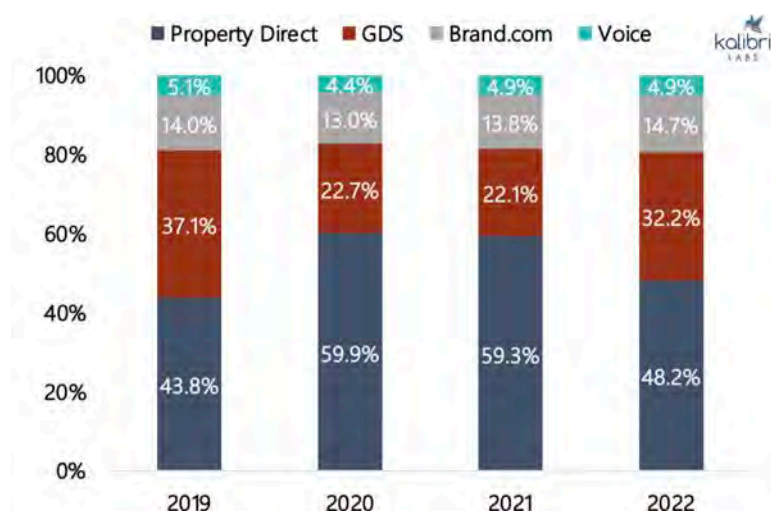
Kayak for Business makes it easy for travelers to book from companies that don't have a fully managed travel program through a Travel Management Company (TMC).



One of the most notable shifts in the business transient space is the fluid nature of booking channels used. In the steady state period after the Great Recession from 2010-2019, a large percentage of corporate travel followed a traditional path using travel agents and travel management companies (TMCs) booking through the GDS. Starting a few years before the pandemic, since about 2017-2018, there was a gradual migration of corporate bookings through direct channels and with COVID, this pattern accelerated. Hoteliers were pushing to get business transient ac-

counts to book through their website to reduce acquisition costs. Post-pandemic, the local and regional accounts were activated early in the recovery and most came through Property Direct, Voice and Brand.com channels. The race is on to attract the smaller accounts that are not likely to use travel management companies that utilize the GDS systems so identifying these accounts and trying to get them to remain direct bookers is a high priority for hotels. Many tech companies are actively trying to appeal to this large cohort of travelers.

U.S. Corporate Rate by Channel: All Tiers January 2019–December 2022



The demand going through the GDS channel in 2022 is less than one-third of the total corporate bookings.

BEDBANKS

Another business-to-business trend with developments in the last few years is consolidation in the accommodation wholesaler market, or “Bedbanks”. The so-called Bedbanks target the long tail of the market, with regional, niche and smaller players, these wholesalers have gained traction by creating alliances to serve the small hotels globally in the most fragmented part of the lodging industry. Connecting intermediaries—travel agencies and tour operators—to hotels, the leader in the space is Hotelbeds, based in Spain with over 170,000 hotels and the second largest is WebBeds (affiliated with WebJet)

serving over 400,000 hotels. Like travel alliances in the airline space, the promise of Bedbanks is that partners share resources at scale, driving greater efficiencies. One of the ramifications of the growth in the wholesale space, however, is that hotels are facing a greater challenge as they monitor inappropriate use of their rates by the Bedbanks. According to research gathered by Fornova Digital Intelligence,¹⁹ although wholesalers may be contracted by hotels to sell rooms, they have been known to provide wholesale rated inventory to non-sanctioned OTAs who sell these rates in retail sites and metasearch.



IF THE CONTROLS IN PLACE ULTIMATELY REDUCE
THE INAPPROPRIATE USE OF WHOLESALE RATES
THROUGHOUT THE INDUSTRY, IT IS A WIN FOR ALL

These non-sanctioned OTAs are aggressively undercutting rates in the public domain, providing double the price discounts in some instances. Being several steps removed from the initial provision of inventory, and with limits on control of onward distribution driven by the OTA agreements, it can be difficult for hotel companies to block this practice which severely undermines rate integrity in a market. The use of wholesale rates in retail sites is entirely contrary to the intentions of the inventory owner when supplying the inventory in the first place. An example of a way one company chose to combat this issue is Marriott's April 2019 agreement with Expedia to be the exclusive supplier of wholesale inventory, followed by IHG in 2022. In order to centrally control the distribution of these rates and ensure they are only made available according to the intended guidelines of wholesale business, Marriott limited their source to one place where their onward distribution can be closely managed. The large hotel brands have threatened that if there is any inappropriate use of their rates, they will summarily shut down the Bedbank supplier and they don't bluff about that. If the controls in place ultimately reduce the inappropriate use of wholesale rates throughout the industry, it is a win for all: consumers and suppliers to ensure rate integrity and consistency throughout the reservation ecosystem.

METASEARCH

While price comparison may be valuable for consumers, for smaller sized suppliers and independents, the visibility from meta may provide limited value. It's always-on, rather than targeted and controlled for need times only. Even for larger chains, marketers believe that metasearch must be evaluated through the lens of lifetime value – otherwise hotels risk leaving value on the table. The metasearch business model actively pits OTAs against hotel brands and individual hotels, and the cost to participate is continually rising. Also, consumers may be misled when they see 'strikethrough pricing' indicating the site is offering a deep discount, 'estimated rates' for future dates or 'only 3 rooms left' when neither rates nor inventory for any given time period are

actually sourced from the hotel; generally, hotel inventory provided to most third parties is either 'open' or 'closed' so in those cases, statements of specific status on rates or rooms available could raise questions of veracity. Efforts such as those publicly shared by Marriott and IHG to use Expedia to prevent wholesale rates from being offered in metasearch retail sites may have reduced some of the volume through meta in the last couple of years. However, it also benefited consumers and hoteliers by reducing the likelihood that any OTAs would break rate parity with inappropriate distribution of wholesale rates.

Metasearch can also make commoditization of hotels more prevalent. With its dominant position in meta, Google will be watched closely by suppliers and OTAs alike related to concerns about bias in search results. As stated succinctly in a pre-COVID statement by TripAdvisor's CEO and a sentiment that is still widely shared, "we see Google preferencing its own content to the detriment of consumers in travel and local search." One development that may keep Google in check are regulatory fines. While Google did make some changes to its policy to allow more representation in its listings as far back as 2017, when fined by the European Commission for \$2.7B related to anti-competitive practices in comparison shopping but it's likely tighter controls will start to be imposed with the initial rollout of the European Commission's Digital legislation which started in November 2022. The European Commission's Digital Markets Act with its sister regulation called the Digital Services Act (DSA) targets digital platforms known as "gatekeepers" that connect a large number of consumers to a large number of businesses. Google and Booking.com are the two largest travel platforms monitored by the European Commission.

It is not clear at this point if some of the metasearch players like Google, Kayak (owned by Booking Holdings), Trivago (owned by Expedia), TripAdvisor and others will move from a media-based model where clicks are monetized to a transactional model where they mainly receive payment on a cost-per-acquisition (CPA) basis. Given the dominance of Google as a starting point for many consumers, they are now an auction media model with free links to others. The other metasearch players compete in this space and are subject to



rising costs to achieve visibility to incoming traffic. This challenge is driving all travel players to consider ways to offer incentives for consumers to book direct on their sites and move to mobile apps. Google reported in their Q4 2022 earnings call that overall advertising revenue had declined 1.6% in Q4, but they had growth in travel and retail. A Skift Research report found that metase-

arch sites have been losing consumer traffic to Google metasearch and say that SimilarWeb data backs up this observation.²⁰ One can argue it is where consumers choose to go, but the degree to which there is bias in the market from the large gatekeepers is a topical issue for many industries, not just travel and will not be settled anytime soon.



The screenshot shows two hotel listings on the Trivago website. The first listing is for 'Hotel Washington Plaza', a 4-star hotel with a 'Popular choice' badge, 0.3 miles to the city center, and an 8.4 'Very good' rating from 4956 reviews. It shows a deal for 2 nights for \$598, with a current price of \$299 and a 'View Deal' button. The second listing is for 'Courtyard By Marriott Convention Center', a 4-star hotel, 0.9 miles to the city center, and an 8.5 'Excellent' rating from 672 reviews. It shows a deal for 2 nights for \$1,078, with a current price of \$539 and a 'View Deal' button. Both listings include a 'Free cancellation - Pay at the property' badge and a '13% Less than usual' badge.

According to Steve Hafner, CEO of Kayak (owned by Booking.com), metasearch players Trivago and TripAdvisor have not kept up with the growth of the big OTAs in 2022 but he says its due to a focus on profitability rather than top line growth. In its Q4 2022 earnings call, TripAdvisor said they were on par with 2019 metasearch results but running 85% of total 2019 performance. In summary, Google is the dominant player with the biggest spenders being the OTAs and the hotel brands. The smaller metasearch players struggle to keep up but a more significant change may be in the offing with the swift emergence of generative AI (OpenAI) that may push the reset button on search deployment. In fact, Kayak was cited by Phocuswire in March 2023 as one of the first in travel to deploy the use of a ChatGPT plug-in to enable a more conversational search interaction. Notwithstanding these changes, there is a widespread effort to improve incentives to consumers to book direct and much of the focus is on loyalty benefits and broader functionality within brand apps that only apply for members booking directly.

HYBRID MODELS: Apartments, Hotels leveraging tech, Alternative Accommodations

In recent years, hoteliers have noted growing consumer interest in what is generally called “alternative accommodations.” Initially thought to be niche offerings with the shared apartment or house being disregarded as non-hotel comparable, the offerings from Airbnb that are private spaces can be just as attractive to some travelers. While adhering to local safety regulations and paying taxes to local authorities for a well vetted subset of their inventory, Airbnb and other providers has appealed successfully to many corporate accounts to consider this alternative to a hotel. Adding to these options are new vendors who emerged during the recovery post-pandemic like Sonder who lease apartments throughout a city and offer them just like upscale or luxury hotel suites and also adhere to local regulations. It seems that the added supply from short-term rental platforms may supplement hotel demand in some markets and compete with traditional



hotels in others. It is likely to vary dramatically by market based on the profile of demand and how that lines up with the existing hotel supply.

Industry observers have recently begun to use the word “convergence” to describe this new aspect of the lodging industry that has been the focus of many venture capital investments: non-traditional accommodations. As a hybrid between hotels and short-term rentals, these companies offer serviced apartments and use technology as a cost-effective alternative to standard offerings. Companies in this marketplace achieved impressive scale in units for sale or under management and attracted large tranches of funding in 2019: Vacasa (\$319MM), Sonder (\$210MM), Lyric (\$180MM) and Domio (\$100MM), but others failed during the COVID shutdown. Lyric’s funding was largely from Airbnb and shuttered in July 2020 and Domio shut down in November 2020 unable to remain funded during the COVID downturn. For those that made it through to a post-COVID recovery, Vacasa that manages vacation rentals beat its revenue targets by \$100M in

Q3 2021, went public through a SPAC (special purpose acquisition company) by year end 2021 with over a \$4B valuation, but by January 2023 laid off 17% of its workforce. Sonder, an upscale alternative to Airbnb leases apartment units and has moved closer to a hotel model by leasing floors and entire buildings. Sonder went public in January 2022 reaching a value close to \$2B and by June 2022 had to lay off 20% of corporate staff and 7% of front line staff to reduce cash burn. In Q1 2023, they announced more layoffs and a restructuring to reduce cash burn, but persist in the market. Kasa, a smaller player that manages short term rentals and Mint House still operate at a substantially smaller scale and the market will tell if they heed the lessons from those who succumbed to the travails of rapid growth. Some might argue the hard times are merely a correction in the market with spiking interest rates and high valuations for a tech sector that may have been artificially inflated for too long. The future of the hybrid apartment/hotel market remains uncertain until the markets stabilize when interest rates return to a sustainable level.

Top 50 of the World’s Largest Short Term Rental Property Managers



Large scale hoteliers in the game alongside digital platforms

The blurring of lines between hotels and alternative accommodations is apparent with moves by large suppliers such as Marriott and Hyatt offering short-term rentals. As Marriott noted during one of its investor days, Tribute Portfolio homes not only add value to Marriott's Bonvoy loyalty program but are viewed as "complementary to our portfolio and incremental to our hotel business." And the same arguments about meeting consumer demand are made by OTAs, and recently Google, for including various short-term rentals on their shelves. Convergence is even influencing the budget end of lodging, with hotel/hostel hybrids such as the Freehand concept now part of the Generator hostel group. In some respects, these solutions are also an effort to walk a fine line when it comes to the increasing regulatory hurdles for the short-term rental space. In general, the upstart accommodations companies adhere to regulations that allow entire units but may otherwise impede Airbnb and other platforms for single room short-term rentals.

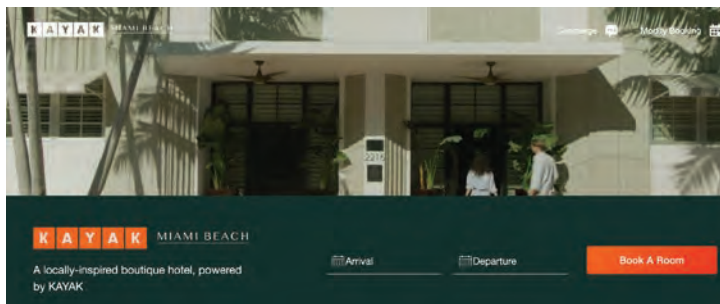
Companies like Airbnb, OYO and the hybrid apartment/hotel platforms like Sonder or Kasa may compete on several levels. Airbnb is clearly making a move to adding hotel inventory along with destination content and starts to look like a next-generation OTA. Within a few months of its Hotel Tonight acquisition, Airbnb was hedging its bets by also investing in Lyric and Oyo and even absorbed a meeting venue site called Gaest to manage event and meeting space. But the pandemic slowed many of these initiatives.

OYO set out to offer a distribution platform, operational technology and renovation funds to independents to create a technology driven franchise model competing directly with economy

brands although its model built on a very specific dynamic in India seems to hit challenges in other markets, including the U.S. COVID put a dent in growth and they had to focus on conserving cash and less on rapid growth. Same headwinds with Sonder; they were growing fast and then demand dropped off so they are resetting their market position. The apartment/hotel platforms may end up as a variation on the home sharing sites to establish inventory in markets that can be relocated or dialed up or down based on demand patterns as it is built with leases on existing inventory rather than building traditional hotels.

With another variation on the theme of hybrid models, in April 2021, the large metasearch company Kayak opened its first hotel in Miami Beach followed by two more in Mexico six months later, powering consumer distribution by parent company Booking.com and operational tech powered by tech start up Life House. This market experiment opens the question of whether the digital platform companies with large consumer footprints can replace the traditional hotel brand and management company model with a superior skill set in technology. The idea is compelling, but it comes down to execution and so far, there are no notable breakthroughs. Kayak announced it was shutting down the Kayak hotel brand in November 2022. Apparently, the investment in establishing a hotel brand may have proven a heavier lift than expected and not as easy to manage adjacent to their core business of metasearch as it seemed it would be when initially conceived.

The game can often look easier from the bleachers than on the field. To this point, the jury is still out on whether these many new hybrid models can scale and enjoy sustainable growth; the test is already started for their durability to sustain economic slowdowns.



In the first foray into hotel operations by a tech company, Kayak launched a property in Miami in April 2021.



INDUSTRY PERSPECTIVE



Andrew Rubinacci

Aimbridge
EVP, Commercial & Revenue Strategy



How long have you been in or involved with the hotel or travel industry?

- >> I have been in hotels for 36 years ever since I took my first job as a front office clerk in 1987. I was studying Hotel Management as an undergraduate at FSU and explored many hotel roles before settling into the commercial functions.

How does the issue of digital distribution matter to hotel operations, marketing and/or asset management?

- >> Distribution and the management of channels can greatly impact overall profitability. With the proliferation of different channels and ways to acquire customers over the last few years, it is imperative you have a robust distribution strategy. I've witnessed hotels execute strategies that work well for increasing RGI, but at the same time continually erode margin and profits.

What are the top 3 issues that you expect will have the greatest impact on customer acquisition for hotels in the next two-three years?

- >> Artificial Intelligence (AI): (1) Recommendation engines that anticipate what you like and serve up several options/offers. (2) Dynamic attribute pricing and offers will give a customer exactly what they want (a target audience of one). (3) bespoke experiences can be offered and executed, thus locking in customer loyalty.

What is the single biggest oversight or misstep that has led to a key learning related to customer acquisition you have witnessed in the last 2-3 years?

- >> Looking at tactical and brand marketing as two separate things. Owners and CFO's love the tracking and attribution of cost from tactical online marketing. But, this reduces equity from the brand and reduces flow of consumers and you will lose share. You need to look at total marketing spend against the returns and build the appropriate marketing mix.

What three things would you suggest about customer acquisition and digital distribution that can have the greatest impact on unit level profit and asset valuation?

- >> If you are looking only on the rooms side and not applying revenue management practices to banquets, restaurants, spas, cabanas, golf, etc, are you really maximizing the asset? Are you getting these offers in front of your customers?

What is the next thing that you predict will diminish in importance and gradually fade away that is currently a part of customer acquisition in the digital market?

- >> With the rise of voice search and other new technologies, traditional SEO tactics will become less effective.

As more and more people use voice assistants (Alexa, Siri, etc) and natural language AI (ChatGPT) to search for information, the way people search for hotels will change.

Given many large new consumer-facing companies with an interest in playing a role in selling hotel rooms online, how do you expect this to play out in the next 5 years?

- >> Regardless of the distributor or brand, if they continue to create incremental value, there will be a place for them. If they don't, hotels and customers will eventually stop using them. Its all about value creation.

If you had a crystal ball, what emerging technologies or business models do you anticipate could be game changers in the next 2-3 years?

- 1 Artificial Intelligence (AI)
- 2 Financial Technology (fintech)-- extracting the value between what a customer is willing to pay now and what the pricing is (or will be) prior to arrival.
- 3 Enhanced pricing and use of more predictive analytics and AI to combat some of the fintech offerings





Future Disruption on the Horizon: Consumer Behavior and New Technology

In addition to innovations from platform players, other disruptions are on the horizon. There is a lot of change driven by consumer behavior: (1) the growth of multi-media search that uses text along with images, video and other media (also called multisearch); (2) the rapid rise of social media influence and the ecosystem around video, images and other rich media that will create its own next-gen form of eCommerce, particularly in the younger traveling cohorts who will be a core component of traveling customers over the next 5-10 years; and (3) the role played by consumer reviews that heavily influence many aspects of the travel decisionmaking process. When everyone wondered how any new technology could usurp Google's dominant position in search, along comes ChatGPT. There has long been an interest in the use of artificial intelligence (AI) and many wondered how it could influence both everyday life, and more specifically, the normal routine of the hotel industry. This is still brand new in the market, but it is technology worth watching as it will certainly make waves while being tested in many settings over the next few years.

Artificial Intelligence (AI), Machine Learning and ChatGPT

Artificial intelligence can offer incredible enhancements to the guest journey, from booking through stay. Machine learning empowers personalization in terms of marketing solutions that enables systems to get “smarter” as more data is added to the model. Combining the tools of data science with loyalty customer information enables travel providers to make relevant offers that satisfy customer booking intent. Beyond the purchase, as an example of meeting expectations during the stay, some brands overlay the floorplan of each of its hotels in their app to allow guests to find their rooms. Behind-the-scenes, suppliers also have the potential for savings from automation of various hotel staff functions while providing better guest service. Again, the cost-benefit analysis and whether consumers permit companies to collect data will factor into how broadly and quickly AI is adopted in the coming years.

ChatGPT (Chat Generative Pre-trained Transformer) was launched in November 2022, bursting onto the scene as the product of several years of work by a company called OpenAI. With already a million users by December 2022, one of its popular tools is called DALL.E 2 that allows the user to generate custom art; at the moment,

basic use is free but the upgraded site charges a modest fee with credits that will get the user to some usable output. Applying this technology to its Bing search engine, Microsoft's \$10B investment in OpenAI seems to be targeting Google in this new front in the search engine wars. Microsoft initially invested \$1B in July 2019 and became the exclusive provider to power OpenAI with its Azure cloud services. There are many developers already using the ChatGPT tools to build out chatbots for various use cases. It's clear that search would be an obvious way to improve results for someone doing online research. The difference is that the inputs are expected to be “natural language” so the inquiry can be written or spoken conversationally. Unlike traditional search, relatively vague or complex inquiries can be understood and will get a response.

Shortly after the launch from OpenAI, in February 2023, Google announced its chatbot solution called “Bard”. In March, 2023, OpenAI released an even more powerful GPT-4 available by subscription. No doubt there will be much press on this topic. There are persistent concerns regarding ethical questions and potential threats of a ‘smart bot’ that may be used by rogue actors creating dangerous content, disinformation and propaganda, pornography, hate speech, weapons or other undesirable outcomes. Of course, AI-driven



recommendations will be dependent on the inputs from hotels and inaccurate content will undoubtedly limit positive results. Highly likely to affect the travel ecosystem, but still unclear on

exactly how that will play out, generative AI will be important to monitor for many years to come and balancing the utility with the risks will be a big part of the conversation.

Using Open AI, DALL-E rendered these works of art given these keywords:

An impressionist oil painting of a modern hotel pool with waterfall and a table with a beautiful pink cocktail



Asking ChatGPT for a suggested list of hotels in California, here is the prompt and the reply:

What hotel should I stay in between Santa Monica and Newport Beach that is family friendly?

There are many family-friendly hotels located between Santa Monica and Newport Beach. Here are some recommendations:

1. Hyatt Regency Huntington Beach Resort and Spa: This luxurious resort is located right on the beach and features a variety of family-friendly amenities, including a large outdoor pool, waterslides, and a kids' club.
2. The Ritz-Carlton, Marina del Rey: This upscale hotel is located on the marina and offers stunning views of the water. Families can enjoy the outdoor pool, tennis courts, and nearby beach.
3. The Waterfront Beach Resort, A Hilton Hotel: This resort is located in Huntington Beach and features a variety of family-friendly amenities, including a kids' club, outdoor pool, and waterslides.
4. Newport Beach Marriott Hotel & Spa: This hotel is located in Newport Beach and offers easy access to the beach and nearby attractions. Families can enjoy the outdoor pool, fitness center, and on-site restaurant.
5. Loews Santa Monica Beach Hotel: This hotel is located right on the beach in Santa Monica and features a variety of family-friendly amenities, including a kids' club, outdoor pool, and beachside restaurant.

All of these hotels offer great amenities for families and are located in convenient areas between Santa Monica and Newport Beach.

There were only 5 properties returned from the search. The model is brand new in 2023 so it hasn't yet been monetized with hotels and third parties vying for placement through the algorithm. Those monetization plans by OpenAI or the users of its technology are yet to come. This result was returned in about a minute.



INDUSTRY PERSPECTIVE



Tim Dick
CBRE Hotel Advisory
and Asset Management
Executive Vice President



How long have you been in or involved with the hotel or travel industry?

- >> 38 years. I started my career in hospitality by working in a five star hotel in Washington DC. I have a masters and PhD in hospitality management and have worked in advisory, consulting, appraisal and asset management for third party consultants and private equity firms.

How does the issue of digital distribution matter to hotel operations, marketing and/or asset management?

- >> Hotel operations are impacted by digital distribution as guest reception is the first interaction with the guest. The sales and marketing team has to position a hotel within the digital marketing spectrum and asset managers will ensure digital distribution is fully deployed in any of their assets.

What are the top 3 issues that you expect will have the greatest impact on customer acquisition for hotels in the next two-three years?

- 1 Cost of acquisition
- 2 Hotels maintaining pace with the changes in technology
- 3 Guests being able to use the technology to meet their needs

What is the smartest move you have seen deployed for customer acquisition in the digital market?

- >> A useful technique has been creating a digital strategy which targets specific demand segments and yields strong capture and results. The message has to be curated and tailored to the audience.

What is the single biggest oversight or misstep that has lead to a key learning related to customer acquisition you have witnessed in the last 2-3 years?

- >> Not marketing to the "right" audience. A message that doesn't resonate with the intended client/audience.

What three things would you suggest to a hotel general manager, owner or asset manager about customer acquisition and digital distribution to have the greatest impact on unit level profit and asset valuation?

- >> Dynamic pricing
The message has to be targeted and specific to the audience as well as relevant and forward thinking
Clear and expedient execution of the strategy (get ahead of your competitors)

What is the next thing that you predict will diminish in importance and gradually fade away that is currently a part of customer acquisition in the digital market?

- >> Anything that is tied to a website/method which appears dated or not relevant or is not routinely refreshed – like brand.com individual property websites.

Given many large new consumer facing companies who have signaled an interest in entering and selling hotel rooms online how do you expect this to play out over the next 5 years?

- >> Hotels will have to decide on whether or not to allocate inventory to each of these large consumer facing companies. It may enhance and improve the visibility of the subject property but hotels will have to make choices on which partners to work with.

If you had a crystal ball, what emerging technologies or business models do you anticipate could be game changers in the next 2-3 years?

- >> AI – will play out in faster smarter for the guest and potentially fewer employees for the hotel operation.
Automatic check in – digital on person phone. It will play out in fewer guest issues.
Streaming and curated entertainment experiences – for each guest. This will play out in improved guest scores.



INDUSTRY PERSPECTIVE



Tracy Prigmore
TLTsolutions
Chief Executive Officer (CEO)



Viviana Wilkins
Canza Management
Director of Asset Management & Investor Relations

How long have you been in or involved with the hotel or travel industry?

- >> We both officially began our careers in the hotel and travel industry in 2014, with Viviana as a front desk agent and Tracy as a limited partner of a 184 key hotel. Now as hotel owners, we have been asset managing our properties for 7 years and recently formed a management company, Canza Management, to property manage our assets that were previously third party managed.

How does the issue of digital distribution matter to hotel operations, marketing and/or asset management?

- >> There is a huge opportunity for hotels to generate more visibility, increase occupancy and drive more revenue to attract the right segment of travelers with effective use of digital tools; it requires the team to formulate, execute and monitor strategies.

What are the top 3 issues that you expect will have the greatest impact on customer acquisition for hotels in the next two-three years?

- 1 The growing sophistication of Digital Marketing Platforms and Artificial Intelligence (AI)
- 2 Evolving social norms and the acceptance of remote work for all levels in the organization.
- 3 Social Media Influencers

What is the smartest move you have seen deployed for customer acquisition in the digital market?

- >> Partnering with Social Media Influencers to create posts with videos that feature the hotel and how a guest maximized their experience at the hotel.

What is the single biggest oversight or misstep that has led to a key learning related to customer acquisition you have witnessed in the last 2-3 years?

- >> Spending funds on digital media when a major annual event sells out the entire market and it wasn't needed. If commercial teams were integrated: marketing, sales, operations, and revenue management, these errors wouldn't happen.

What three things would you suggest to a hotel general manager, owner or asset manager to have the greatest impact on unit level profit and asset valuation?

- >> Study the available customer behavior data to create moments of truth to drive loyalty and revenue.
- Ensure that operations, sales, marketing and revenue management are savvy about digital marketing and integrated with a commercial strategy.
- Establish practices that maximize the utilization of existing technology that improves productivity.

What is the next thing that you predict will diminish in importance and gradually fade away that is currently a part of customer acquisition in the digital market?

- >> We believe traditional websites in the future will diminish in importance because the relationship between the hotel and the guest is going to be built on social media platforms.

Given many large new consumer facing companies who have signaled an interest in selling hotel rooms online, how do you expect this to play out over the next 5 years?

- >> Hotel brands should be proactive in working with the third parties when it is mutually beneficial. Hotels can participate in more platforms if you can stand out.

If you had a crystal ball, what emerging technologies or business models do you anticipate could be game changers in the next 2-3 years?

- >> The metaverse with virtual reality tours for hotels before the guest arrives, especially to convey what potential guests can expect in a guest room, work space, meeting rooms, restaurants, and amenities.





Hospitality Stakeholders

While suppliers and intermediaries jockey for attention of consumers, this distribution platform war has ramifications for a broader group of stakeholders.

Hotel Owners

For hotel owners, they are closely observing the competitive dynamic between the large tech distribution platform companies and the hotel brands. There are two factors that are top of mind for owners: sustainable reservation volume and the increasing customer acquisition costs associated with these bookings challenging the flow-through to profits. Acquisition costs in the U.S. hotels are 15-25% of guest paid revenue and with it comes the question of control of the customer and the ability to benefit from retention and loyalty programs.

These factors play into many decisions by an owner around portfolio expansion: traditional brands, “soft brands” or independent status; which management company can deliver most effectively on their objectives; and which markets have the most sustainable outlook for the timeframe an owner considers in an investment thesis for any given asset or portfolio. Having a growing and reliable customer base requires a value proposition that keeps the travelers coming back. This is no longer just about the hotel stay but now involves the seamless integration of the digital experience. In deciding where on this spectrum to position a hotel, real estate owners often evaluate the costs of chain or soft brand affiliation; third party commission rates; loyalty contribution and the ability to keep the tech titans at bay by limiting access to the on-site guest experience. Smaller chains and independents will also grapple with providing travelers an end-to-end stay experience with the benefits of digital integration and the need to determine how much to depend on third-party tech platforms that have the power to control their reservation flow and with that control, to dictate costs.

Owners have also taken note about the shifts in hotel demand post-pandemic with an emphasis on the leisure

traveler and a decline in the larger corporate accounts while seeing growth in the local and regional accounts. As they examine the way both large and small brands make the needed changes to their sales and marketing infrastructure, they will be considering for each asset how the related costs may influence decisions on whether to use a traditional brand, soft brand or take the independent path.

Public REITs, C-Corps and Private Equity Funded Lodging Companies

In the face of a highly competitive marketplace dominated by digital platforms, both public and private equity driven lodging companies have shown a propensity to be acquisitive. Advantages in scale for purchasing, hiring, negotiating commission rates and technology investments have all contributed to significant merger and acquisition activity. Many mergers have been driven by a perceived benefit in better positioning with third party distribution and the potential to tap broader data sets that may improve the guest’s experience and/or improve owner profitability.

Some examples from 2019 include Aimbridge and Interstate combining to create the world’s largest management company with almost 1600 hotels under management worldwide; Park Hotels & Resorts expanding outside of its initial Hilton portfolio to acquire Chesapeake Lodging Trust; IHG moving deeper into the luxury space with its acquisition of Six Senses Hotels, Resorts and Spas; and Best Western expanding its upscale and upper upscale footprint with the acquisition of WorldHotels. Blackstone added to its resort focus with the acquisition of Great Wolf Lodges while Vail Resorts acquired Peak Resorts. Marriott moved into the luxury all-inclusive space with the acquisition of Elegant Resorts of Barbados. Post COVID, the M&A activity persisted with some notable acquisitions.



Sample List of Mergers and Acquisitions 2021-2023

Date	Buyer	Seller	Value (\$m)
Feb 2023	Hyatt	Dream Hotels	\$125
Oct 2022	Brookfield	Watermark	\$3,795
Aug 2022	Choice	Radisson	\$675
Mar 2022	Highgate/Cerberus	CorePoint	\$1,180
Nov 2021	Blackstone	Condor	\$305
Nov 2021	Hyatt	Apple Leisure Group	\$2,700
Jun 2021	Blackstone/Starwood	Extended Stay America	\$6,145
Mar 2021	Sonesta	Red Lion	\$63
TOTAL			\$14,988

JF Capital Advisors 2023; based on publicly available information

Hotel Operators

Much like the owners, hotel operators have been thrust into a digital marketplace where they have limited control over some of the key drivers of the business. They struggle with increasing labor costs along with restrictions on access to labor. The two biggest factors in the digital market are higher costs—hotels are paying 15-25% to acquire its customers—and the diversity of demand drivers making it necessary to be selective about where to invest limited payroll or sales/marketing funds for customer acquisition. For the approximately 70% branded hotels in the U.S., they depend on the brands for technology, negotiating

OTA and other third-party deals and managing most of the digital interaction. However, branded and independent hotels alike still control their own mix of business, their rates and their discretionary sales and marketing spending. Many savvy operators have taken a proactive role with their business by shifting performance focus from top line to profit contribution. In tightening the reins, they are setting intentional business mix targets with strict spending aligned around those targets and partnering with brand teams by giving specific guidelines where, how and when they need their support.





Implications for Consumers: Policy and Legislation

To ensure they continue to remain relevant in travel, tech titans have made multiple bold moves. Millennials and the Gen Z cohorts are bringing to the fore a push for greater customization, convenience and a renewed focus on blending business and leisure. A broad consumer expectation around seamless interaction in digital commerce venues is the norm and it applies to most cohorts, not just for millennials or Gen Z. These moves are being played out amidst increased regulatory scrutiny.

Penalties for companies which capture value by stifling competition are becoming increasingly common. The California Consumer Privacy Act (CCPA) enacted in June 2018 was the first major legislation in the U.S. around data privacy. This followed on the heels of Europe's GDPR (General Data Protection Regulation) signed into law in 2016 and implemented in May 2018. This was in play in parallel to a multi-year European commission evaluation of guidelines in the deployment of technology platforms through the Digital Single Market initiative (all sectors, not just travel) with separate scrutiny of Google's position by the European Union's antitrust unit and globally with more restrictive homesharing policies. The launch of the Digital Markets Act²¹ and Digital Services Act²² in November 2022 by the European Commission is foundational legislation that will likely influence U.S. policy on these topics. Antitrust and competition regulation reform in the U.S., particularly with respect to large tech platforms, is a topic of significant interest across the federal government with activity ongoing at the Federal Trade Commission, Department of Justice, as well as in Congress. The Data Governance Act in the European Union²³ is designed to enable fair access to data and prevent restrictions that limit commerce and public access. It is meant to inspire innovation and prevent stifling of commercial growth and operate to the benefit of society in health, education and other spheres. The Data Governance entered into force on 23 June 2022 and, following a 15-month grace period, will be applicable from September 2023. Alongside concerns around consumer privacy and transparency, this focus on leveraging data for economic benefit is a central issue in the U.S. as well with various efforts at both the state and federal level to enshrine enhanced privacy requirements and regulations.

A key pillar of the European strategy for data, the Data Governance Act seeks to increase trust in data sharing, strengthen mechanisms to increase data availability and overcome technical obstacles to the reuse of data.

While the disruptions discussed in this book imply an industry in flux, some benefits for consumers have emerged in recent years that are likely to evolve as the dynamics in the digital market play out along with issues related to transparency, consumer deception and privacy.

Consumers have choices with some caveats

In the battle over direct versus indirect bookings, consumers continue to enjoy positive outcomes when there is more choice. One of the prizes for consumers has been greater customization in booking. To differentiate the supplier experience from OTAs, the "attribute-based" selling along with added options for researching and booking a hotel can be an advantage when it is operationally available. There are questions, however, on whether some third-party vendors like OTAs and metasearch may employ tactics that can be misleading to consumers in terms of actual availability, rates or creating bias in the booking process.

Controlling the Sales Path: Transparency to Consumers

No matter what the monetization model is for any vendor in the digital market for travel, the control over access and visibility to consumers will continue to be the primary factors for success in the market. The costs today may be driven by rankings and position, but tomorrow it is likely to be the algorithms that determine the offer to a consumer when they are shopping or buying travel. In contrast to the broad output of generic



search engines today that can serve up hundreds or thousands of listings, consumers will come to expect the most relevant and somewhat personalized offers and these will be driven by recommendation engines. These engines will be built on artificial intelligence and machine learning and the points of control over this process are not clear. Consumers may provide their preferences by virtue of past behavior and the intermediary or the hotel supplier may be competing for both access to that consumer data and the best use of it. Some of this may come under legislative scrutiny. If an algorithm is built to have a bias to a supplier based on how much they pay an intermediary, is that going to be in the best interest of the consumer? What are reasonable factors to include for the convenience of the consumer without being entirely mercenary from the supplier's point of view? How can the vendors and hotel suppliers

walk the fine line between use of consumer preference data and crossing into privacy concerns related to the consumer's past behavior?

Consumer Deception in the Digital Market

The hotel industry has worked through the AHLA to raise awareness about consumer deception by intermediaries. Key milestones in this campaign in the U.S. have included working to promote the bipartisan Stop Online Booking Scams Act (SOBSA). The legislation would protect consumers from unknowingly booking with third-parties who are not the official hotel websites. SOBSA would ensure these third-parties display notices and demonstrate transparency. AHLA has also worked with the Federal Trade Commission on issues related to booking scams.



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INDUSTRY PERSPECTIVE

IHG® HOTELS & RESORTS

Brian Hicks

IHG Hotels & Resorts
Senior Vice President Commercial &
Revenue Management



How long have you been in or involved with the hotel or travel industry?

- >> I have worked in the hospitality industry for my entire career over 30 years, and I have been with IHG Hotels & Resorts for more than 20 years. It's an ever-evolving field and the people I work with day-to-day make it very rewarding.

How does the issue of digital distribution matter to hotel operations, marketing and/or asset management?

- >> Being digital-first drives a higher percentage of direct bookings to our hotels, helps meet evolving guest expectations, creates cost efficiencies, and delivers data and insights to optimize revenue management decisions.

What are the top 3 issues that you expect will have the greatest impact on customer acquisition for hotels in the next two-three years?

- >> The potential for a recession may have an impact on acquisition and overall cost of distribution. Technology will play a greater role in acquisitions and the ability to offer strong booking channels for guests will continue to remain a priority. Lastly, competition and new players in the market may cause some disruption.

What is the smartest move you have seen deployed for customer acquisition in the digital market?

- >> Catering accurately to the guests' needs is paramount to customer acquisition. I've seen a brand that guarantees connecting rooms upon request – that is a smart move.

What is the smartest move your organization has made related to customer acquisition?

- >> In 2022 we launched our transformed loyalty program, IHG One Rewards. The program offers industry-leading value, richer benefits, and greater choice for members to enhance their stays, alongside attracting a next-generation of travelers. It's a game changer with enrollments up 27% year-on-year and more than 12 million more loyalty members joining our program.

What is the single biggest oversight or misstep that has led to a key learning related to customer acquisition in the last 2-3 years?

- >> Sometimes increasing the benefits through the loyalty channel may cost more in the short term, but as a result may yield higher paying and longer staying guests that make it well worth it in the medium and longer term. Not everyone understands this calculation.

What three things would you suggest about customer acquisition and digital distribution that can have the greatest impact on unit level profit and on asset valuation?

- >> Creating seamless and tailored guest experiences that generate increased demand and build loyalty. Reviewing, replying, and implementing change from guest reviews is paramount to the success of service. And the importance of evaluating cost effectiveness of investments, before making quick judgements, is key with asset valuation.

Given many large new consumer-facing companies with an interest in playing a role in selling hotel rooms online, how do you expect this to play out in the next 5 years?

- >> The entrance of new competitors would increase costs significantly and that cost would either be passed along to the consumer or could cost hotel owners. There are value adds that are only available by booking direct and that technology is improving.

If you had a crystal ball, what emerging technologies or business models do you anticipate could be game changers in the next 2-3 years?

- 1 We will see more in the digitizing of the customer experience so concerns and requests are answered easily
- 2 Growth in the use of Artificial Intelligence (AI) capabilities
- 3 There is an opportunity to utilize blockchain to move points between partners and increase the value of points that could be used in more places.



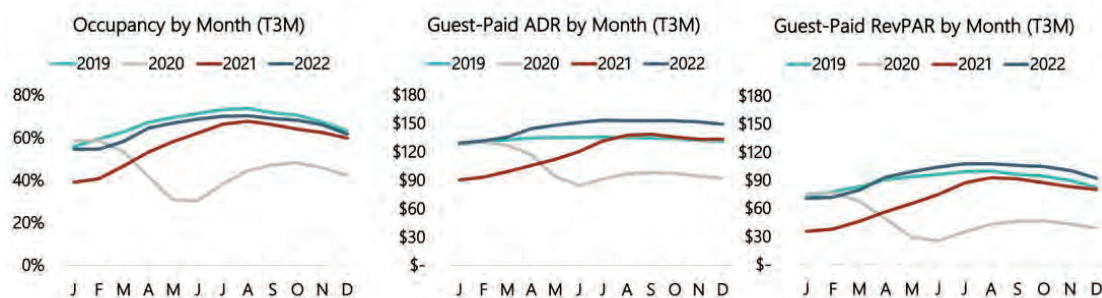


Hotel Performance 2019-2022

SIX THINGS YOU NEED TO KNOW

1. 2022 was a great rebound year for the U.S. hotel Industry from almost every conceivable metric, including the traditional top line indicators of Occupancy, ADR and RevPAR. In addition, the rebound also included more granular and revealing metrics like Guest Paid Room revenue, COPE (Contribution to Operating Profit and Expenses) revenue and Net revenue.
2. The rebound in all of the above metrics began in earnest during the 2nd quarter of 2022 with each of the above metrics exceeding 2019 levels on an annualized basis.
3. However, it must be noted that actual demand levels in 2022, while showing a significant rebound from 2021, did NOT reach 2019 levels. Which means that all the RevPAR growth came from out-sized ADR growth, well above any percentage gain levels reported historically.
4. In every prior industry recovery cycle, revenue growth was driven by rebounding demand with ADR growth following later. The current recovery was just the opposite with ADR growth leading the way, despite the fact that demand lagged considerably. This is food for thought going forward as it's hard to know if this change in the historical recovery pattern would happen during the next economic downturn or there will be a reversion to a demand led recovery like in previous historical cycles.
5. From an occupancy perspective, while 2022 levels did not reach 2019 levels, the seasonal variation returned to historical patterns late in 2021 and generally remained that way throughout most of 2022.
6. From an ADR standpoint, the large percentage growth reported in the second half of 2021 and thru the 1st two quarters of 2022, began to level off in the second half of last year and probably has begun to reach a plateau. Outsized ADR growth is unlikely to continue into 2023 as the business mix begins to look more like pre-pandemic levels.

ADR continues to outpace 2019; Occupancy still lags January 2019–December 2022



Note: T3M = Trailing 3 Months

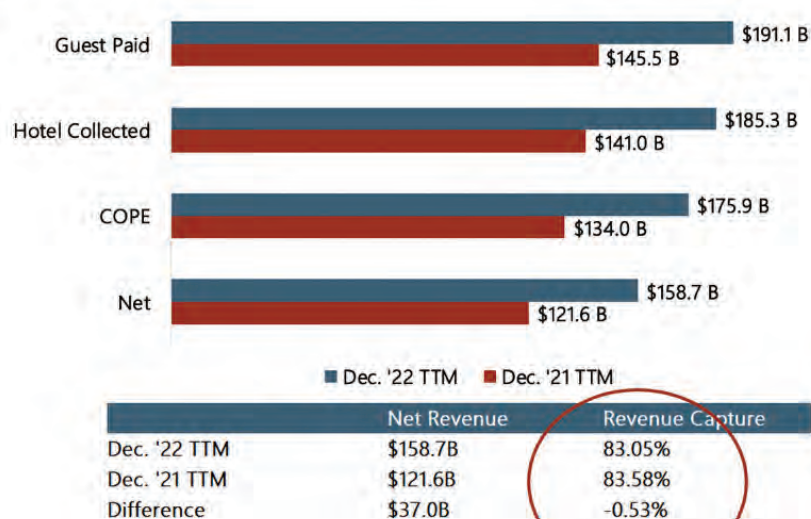


KEY METRICS

There were several reasons for the large ADR growth reported in 2022. The most important are listed below:

- Significant business mix change with much more transient leisure demand than any historical period. While this shift toward a higher percentage of guests being transient leisure vs. business has been a trend for the last decade, it was greatly accelerated by the pandemic.
- Leisure travelers tend to stay longer than business travelers (discussed in more detail later)
- The shift away from going into the office and working from home lead to consumers' pent-up leisure demand in the form of long weekends and mini vacations, with a willingness to pay higher rates.
- It is unclear at this stage if this is a sustainable pattern or just a welcome short-term behavior change.
- Despite the fact that room revenue was at record levels the amount of that revenue that went to third party intermediaries (mainly the OTAs) was also at record levels. This is primarily due to two major factors:
 - Customer type mix shift (toward a greater share of leisure)
 - Over the past decade a continually increasing share of hotel bookings made through online channels. When bookings happen online, the majority of those bookings will go to the hotel website (Brand.com channel) or to the OTAs. OTAs. Conversely, there has been a decline in the share of bookings that are made to the hotel directly (drive up, call in, walk in) or by calling the 800 number.
- Guests paid \$191.1B to all U.S. hotels in 2022.

As Revenue Capture Declines, Real Estate Values Erode \$1.01B U.S. Revenue Capture Loss 2022 vs. 2021= \$12.6B Decline in U.S. Asset Values



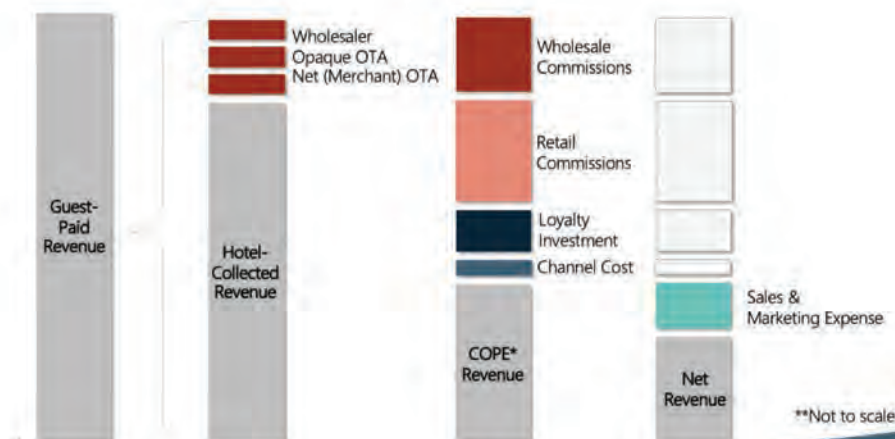
- After removing wholesale commissions that had been taken off the top from the OTAs and traditional wholesale operators of almost \$6B, the hotels had directly collected \$185.3B.
- After taking out another ~\$10B for retail commissions, channel, transaction and loyalty fees, the COPE* revenue remaining was almost \$180B.
- Last deduction is \$17.2B in sales and marketing costs leaving the hotels with \$158.7B in Net Revenue.
- U.S. hotels spent a total of \$32.4B to acquire their business in 2022. Although the guest paid revenue grew substantially over 2021, the hotels kept a smaller percentage of it due to higher customer acquisition

costs. *COPE=contribution to operating profit and expense

- In 2022, Revenue Capture (the amount of guest-paid revenue remaining after acquisition costs are removed) not only declined from 2021, but was also below 2019 levels. Due to the pandemic and the consumer behavior changes that lead to an increase in direct bookings, Revenue Capture improved in 2020 and 2021 before consumers reverted to past practices and the Revenue Capture returned to pre-pandemic levels.

Revenue Types

Customer Acquisition Costs are 15-25% of Guest Paid Revenue



Hotels do not always collect all revenue paid by guests. A portion of the business that comes to a hotel is paid in advance to third parties like traditional wholesalers or online travel agencies (OTAs) and these third-party vendors pay the hotel a portion of the rate and retain a pre-determined commission. When adhering to the standard practice of hotel accounting (based on the USALI model), they reflect the rate collected by the hotel and do not account for the commission. It can be helpful for a hotel to recognize how much revenue they retain in order to understand how much they are spending for customer acquisition:

- Guest Paid—what the guests actually paid, whether it is to the hotel or to a third party;
- Hotel Collected—the amount collected by the hotel directly after removing wholesale commissions that were kept by third parties;
- Contribution to Operating Profit and Expense (COPE)—the remaining funds after wholesale and retail commissions, channel and transaction fees and the loyalty investment is removed;
- Net—how much is left after all acquisition costs plus sales and marketing expenses are removed.





Commercial and Leisure Mix

Kalibri Labs has created a summarized way to view lodging demand by grouping it into two categories: Commercial and Leisure and both contain transient and group segments. In assigning the guest stays into one of those two buckets, the analysis focuses on the rate categories the booking was made through as well as the day of the week of the stay, and this guides the assumptions on the trip purpose. The data is viewed in this format historically with forecasts out for an 18-month period.

Commercial and Leisure Segment Definitions

Commercial	Transient	Group
	Corporate	Association
	Government	Convention
	Consortia	Corporate
	Rack/BAR (Sun-Thurs)	Government
	Loyalty Member Rate (LMR) (Sun-Thurs)	Contract/Crew
Leisure	Transient	Group
	AAA/AARP	SMERF
	Advance Purchase	Tour/Wholesale
	Friend & Family	
	Promotion/Packages	
	Loyalty Redemption	
	Rack/BAR & LMR (Fri-Sat)	
	OTA	

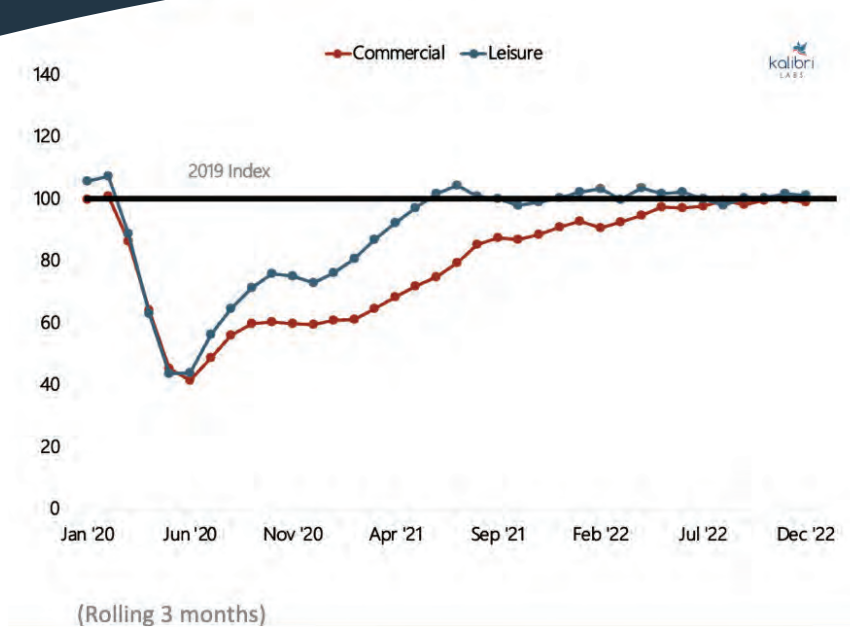
- While total lodging demand has been continually growing for the past several decades the mix of business has slowly evolved and changed. Historically, lodging demand has been driven by the business traveler and group business.
- The shift toward the transient leisure traveler being the more dominant demand segment has been going on for several years and then was accelerated by the pandemic.
- In the past decade Friday & Saturday nights have become the highest Occupancy nights. In the early part of the 2000s the highest occupancy night was Wednesday, with the other traditional weeknights not far behind. That change alone highlights the shift in the business mix that has taken place.

During the early stages of the pandemic, traditional business and group demand declined while transient leisure travel recovered more quickly and was back to 2019 levels by the 3rd quarter of 2021. It wasn't until the 4th quarter of 2022 that commercial business began to approach pre-pandemic levels.



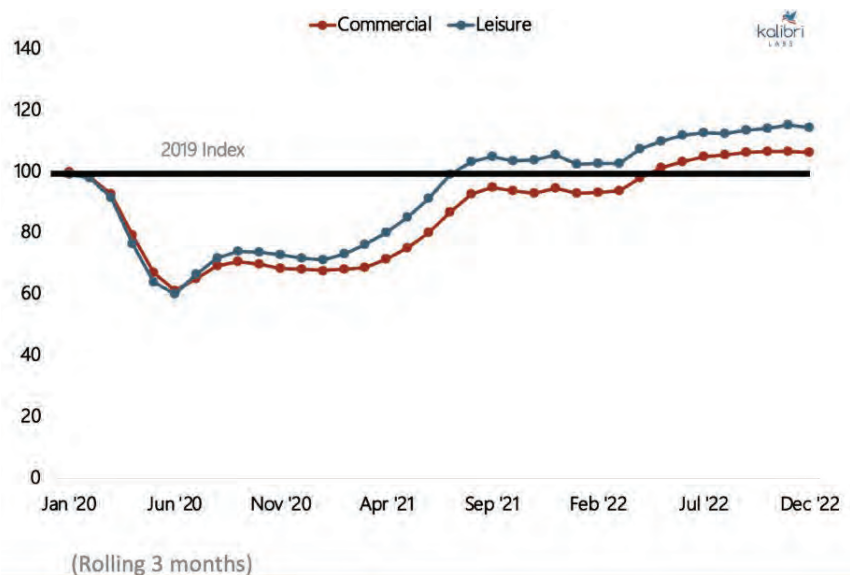
U.S. Room Night Demand: Commercial vs. Leisure

January 2020–December 2022 indexed vs. 2019

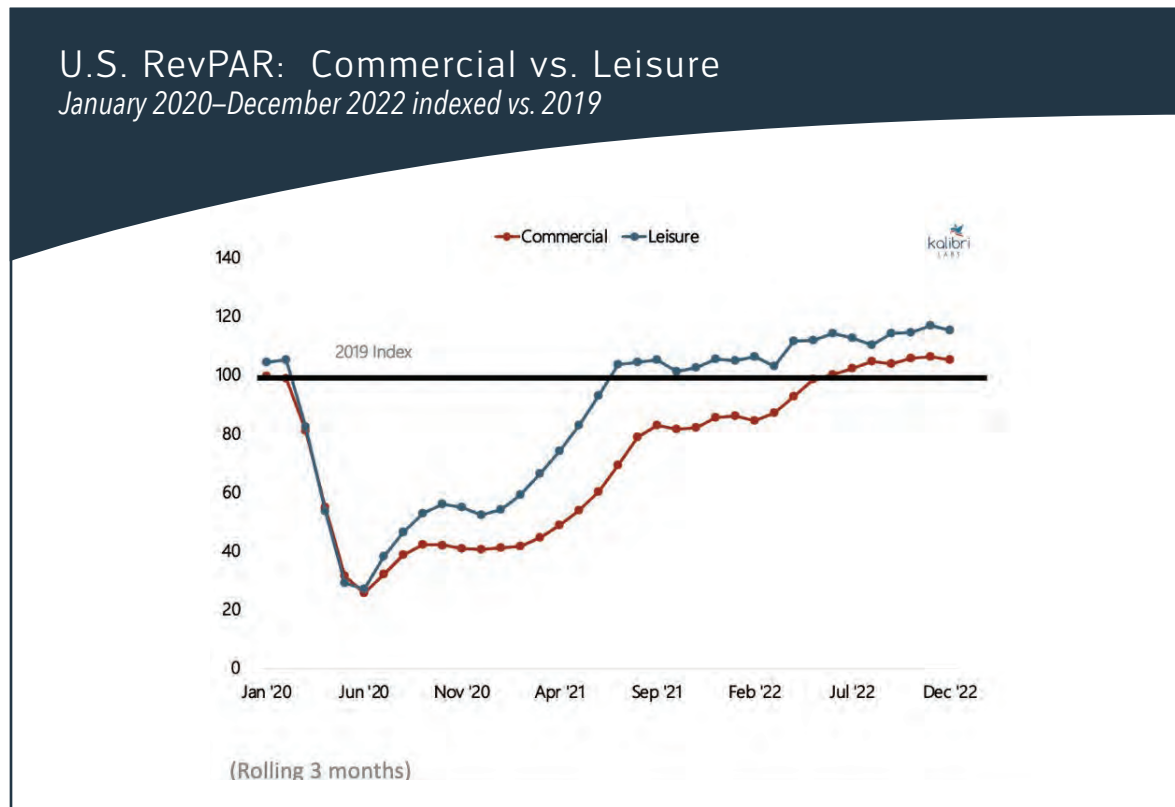


U.S. Average Rate (ADR): Commercial vs. Leisure

January 2020–December 2022 indexed vs. 2019



Interestingly, from an ADR standpoint, while the rate recovery for commercial business certainly lagged that of leisure demand, the pattern and differential of the room rate levels remained extremely consistent, despite the absolute differences in the actual room rates. This would indicate price increases were fairly consistently applied to all rate categories.



Looking at RevPAR levels, RevPAR associated with Leisure rate categories recovered back to 2019 levels by the 3rd quarter of 2021, while it was not until the 3rd quarter of 2022 that the RevPar from Commercial rate categories achieved those same levels, a full year later. The primary driver of the RevPAR recovery was ADR, not occupancy for both Commercial and Leisure segments.



Understanding the patterns of Commercial and Leisure business by quarter shows that there seems to be a plateau approaching for leisure business with commercial close to 2019 levels or above.

U.S. Guest Paid RevPAR Contribution -Commercial vs. Leisure January 2020-December 2022 indexed vs. 2019



INDUSTRY PERSPECTIVE

Booking.com

Lou Zameryka

Booking.com

Regional Director of Global Accounts



How long have you been in or involved with the hotel or travel industry?

>> 25 years

How does the issue of digital distribution matter to hotel operations, marketing and/or asset management?

>> This means that the vast majority of potential travelers now look to be inspired, informed and even served in the digital medium on the device of their choosing. All stakeholders need to understand how a hotel chooses to be present on, engage with, and profitably utilize digital marketplaces.

What are the top 3 issues that you expect will have the greatest impact on customer acquisition for hotels in the next two-three years?

1
2
3

Quality of Service

Value of the Experience

Digital Competency: The best at content creation, conversion enhancement, pricing decisions, personalization, pre/post stay digital engagement, and data privacy.

What is the smartest move your organization has made related to customer acquisition in the digital market?

>> Years ago internally at Booking.com we went out early with the message to the entire company and of course especially our development teams that we are going "mobile first". wallet credits for various marketing promotions and more.

What three things would you suggest about customer acquisition and digital distribution to have the greatest impact on unit level profit and asset valuation?

>> Operationalize how to better service the guests coming through digital channels,

Data mine for monetization. Meaning invest in the capability to understand what areas of your business travelers or even customers in the community would pay for or pay more for.

Focus on what gets results you target your business on, not what is trendy or cutting edge.

What is the next thing that you predict will diminish in importance and gradually fade away that is currently a part of customer acquisition in the digital market?

>> The current ways of knowing and finding your customers will likely diminish over time, and you will have to ensure you are capable of adjusting and succeeding in new ways.

Given many large new consumer-facing companies with an interest in playing a role in selling hotel rooms online, how do you expect this to play out in the next 5 years?

>> New competitors force those on the playing field to really dial in their competencies, focus their energies, and it introduces innovation or stimulates innovation which strengthens any competitor that is adaptable.

If you had a crystal ball, what emerging technologies or business models do you anticipate could be game changers in the next 2-3 years?

>> In a post-cookie (third-party) world, this could change the approach hotels and hotel brands take for acquisition of new customers but at the same time, it may benefit any hotel company with an existing robust loyalty membership.

Customer lifetime values could skyrocket when you truly acquire loyal customers because they will be living life much more actively for longer

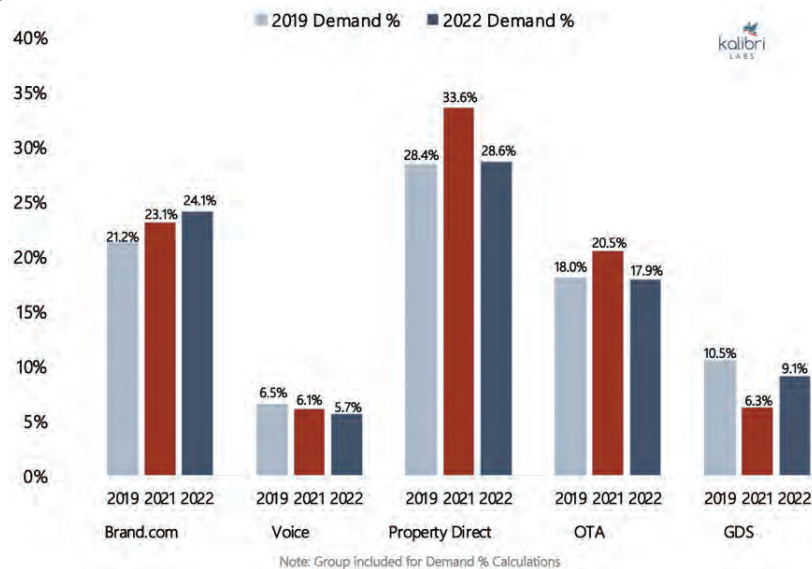
Metaverse, Generative AI, Crypto... cool things to say but no one really knows what to do with them yet. Act on them in a meaningful way if it supports serious KPI's or priorities your business has.





Channel and Rate Category Mix

U.S. Channel Mix: Over 50% Online; ~60% Thru Direct Channels 2019, 2021 & 2022--All Tiers



On a national level, the data on bookings by channel reveals a lot about consumer preferences.

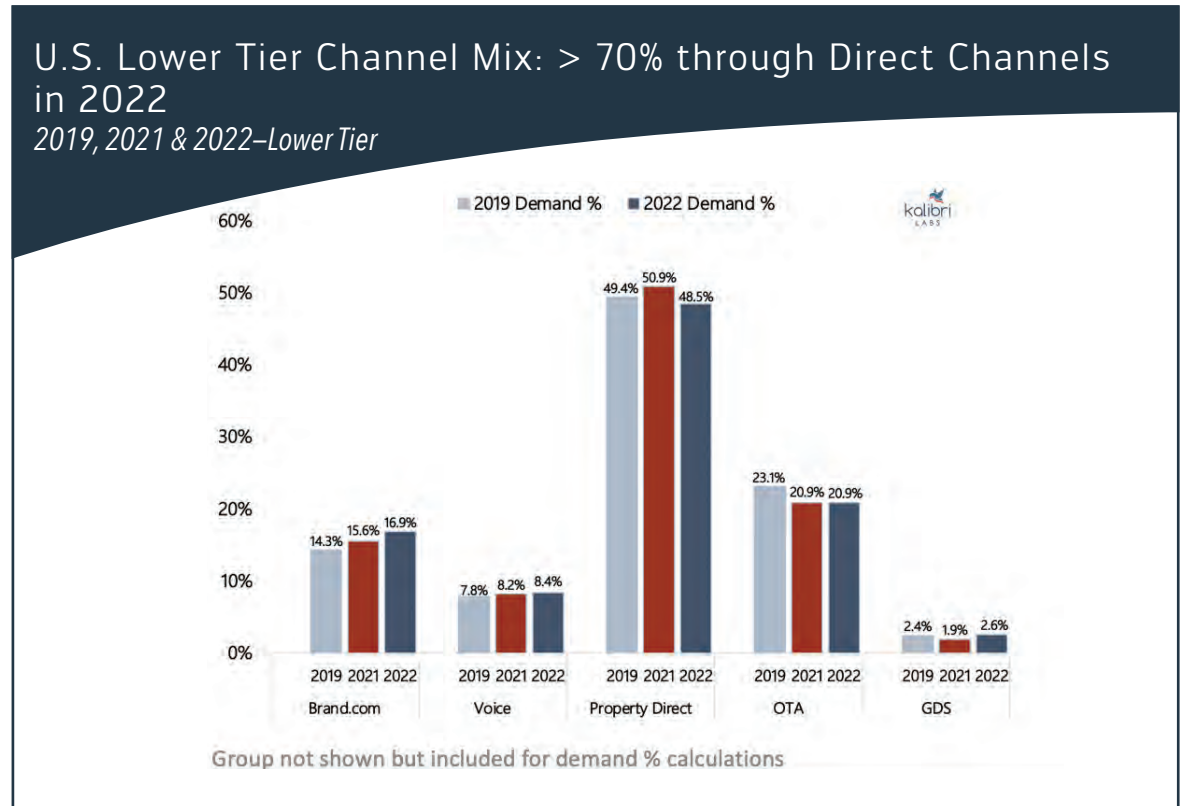
2022 online bookings (Brand.com, OTA and GDS) were responsible for over 50% of all room reservations. This continued a trend that has been going on for the last decade, but one that was interrupted in 2020 and 2021 by the pandemic. Bookings in both Voice and Property Direct have shown correspondingly smaller shares over the same time period.

- While the share of Property Direct bookings in 2022 was about the same as in 2019, this was largely because hotel customers during the pandemic were much more comfortable contacting the property directly to verify it was open and confirm available amenities.
- It is expected that Property Direct will revert to the declining pattern that began a decade ago in favor of Brand.com and OTA channels, and that the Voice and GDS channel will also remain in a declining or a slower growth mode.



Channel Mix by Hotel Price Tier

Examination by Hotel Price Tier can reveal even more about consumer booking preferences.

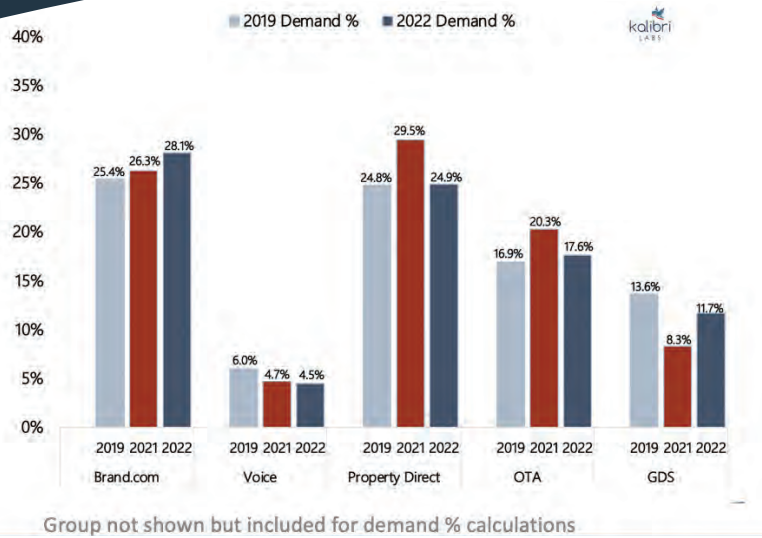


- For Lower Tier hotels (Economy and Midscale chain scale), about 50% of all their bookings come directly to the property. This is, by far, the highest share of Property Direct bookings of any of the three price tier categories. In addition, hotels in this tier have the lowest percentage of booking thru Brand.com while OTA bookings are on about on par with that of the other tiers.
- Interestingly, Lower Tier hotel booking patterns returned to pre-pandemic levels faster than their middle and upper tier counterparts as the 2021 results were very much in line to what they had experienced in 2019.



U.S. Mid Tier Channel Mix: More than 55% Online in 2022

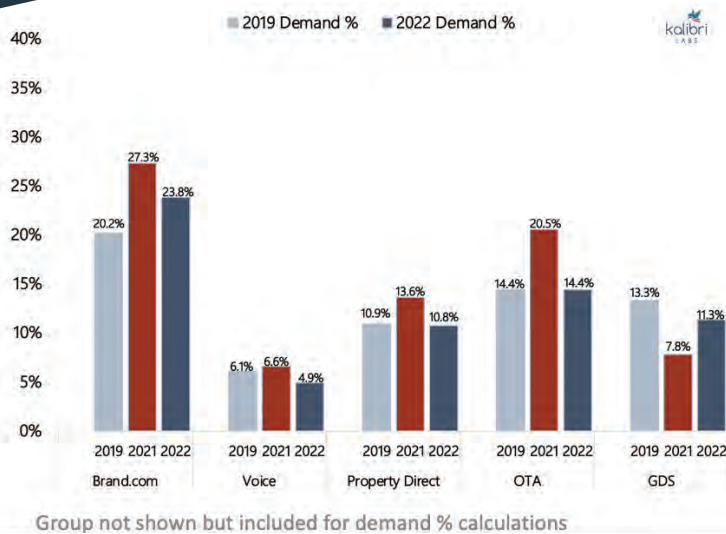
2019, 2021 & 2022–Mid Tier



Middle Tier hotels (Upscale and Upper Middle chain scale) have had about the same percentage of bookings either directly to the hotel or thru brand.com and less thru the voice channel.

U.S. Upper Tier Channel Mix: Nearly 50% Online in 2022

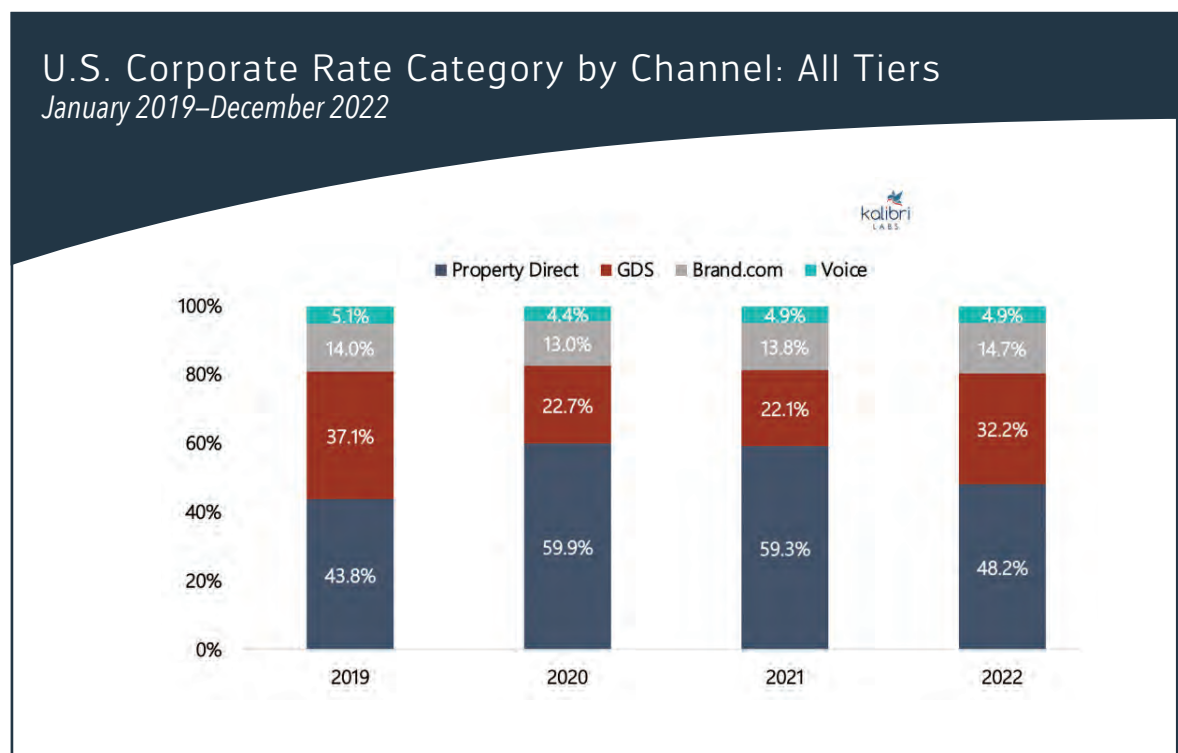
2019, 2021 & 2022–Upper Tier



Upper Tier hotels (Luxury and Upper Upscale chain scales) have the strongest contribution from the Brand.com channel of any of the tier segments. As their business is historically heavily skewed toward business travel, including about 30% Group, a higher percentage of their bookings also come thru the GDS channel. However, since the pandemic, GDS has been muted due to the limitations on travel within the larger corporate accounts.

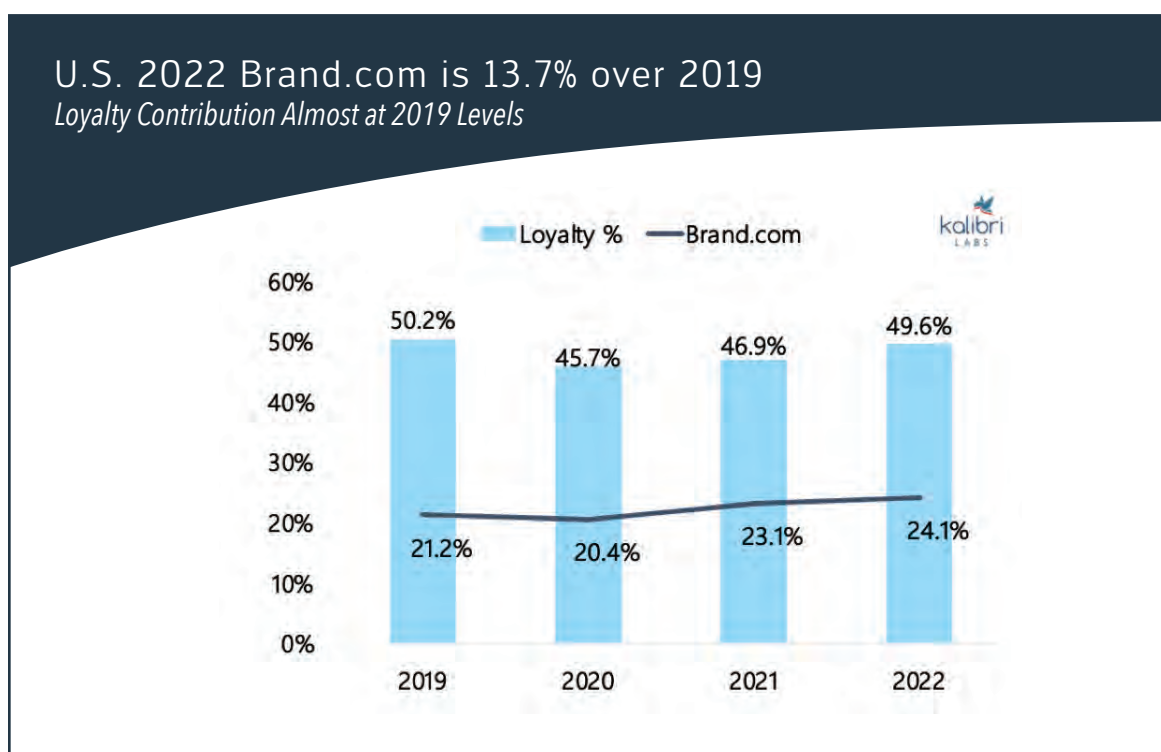
Where Have All the Business Travelers Gone?

The decline in corporate hotel demand during the pandemic seems to have resulted in residual changes in the booking patterns of hotels which have continued into the recovery. The large corporate accounts were the mainstay in large metro areas and served as a solid foundation for hotels, particularly in the Upper tier. These accounts hired Travel Management Companies (TMCs) whose agents booked through the GDSs and tended to have higher rates and booked both business transient (BT) and Group. Many Fortune 1000 companies moved to hybrid remote work settings and tightened spending on travel. Still running 20-30% below 2019 levels in major markets by 2022, this business appears to have changed in ways that are both positive and negative for hotels. More combined business and leisure trips appear to have improved shoulder night stays (Sunday, Thursday) and expanded weekend stays (Friday, Saturday) and company retreats to bring together hybrid work teams may enhance small group business. However, the traditional Monday to Wednesday business transient base may not return to its pre-pandemic levels. Further, bookings for business travelers are coming through a wider variety of rate categories and channels making it harder for sales teams to identify and acquire.



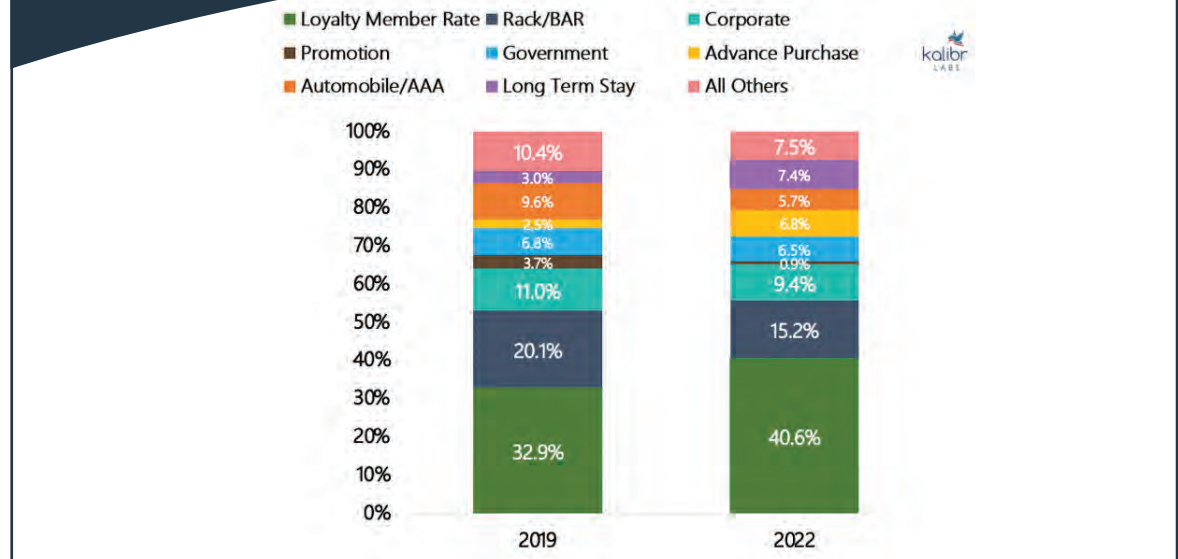
Historically, corporate business made up 50% or greater of the GDSs volume, and by 2019 less than 4 in 10 corporate room nights came through the GDSs and after a major pandemic contraction, by 2022, less than one-third of all room nights come through the GDSs. The growth in direct corporate bookings is a good thing for hotels in terms of improving profit margins, but many technology platforms including OTAs and metasearch are actively courting the business traveler, and would like to attract the smaller and medium-sized accounts that were not inclined to hire travel management companies (TMCs) along with some of the larger accounts that have worked with TMCs in the past. Direct booking links are becoming more commonly used by hotel brands and it's a trend worth monitoring as the recovery continues.

Returning to a 2019 level, where close to half of all room nights were booked by loyalty members in 2022, this pattern has tracked with the growth in Brand.com to almost one-fourth of all demand for U.S. hotels in 2022. Generally, about 80% of all Brand.com bookings are by loyalty members.



Brand.com by Rate Category 2022: Loyalty Member Rates +23.4% vs. 2019

2019 and 2022: All U.S. Hotels

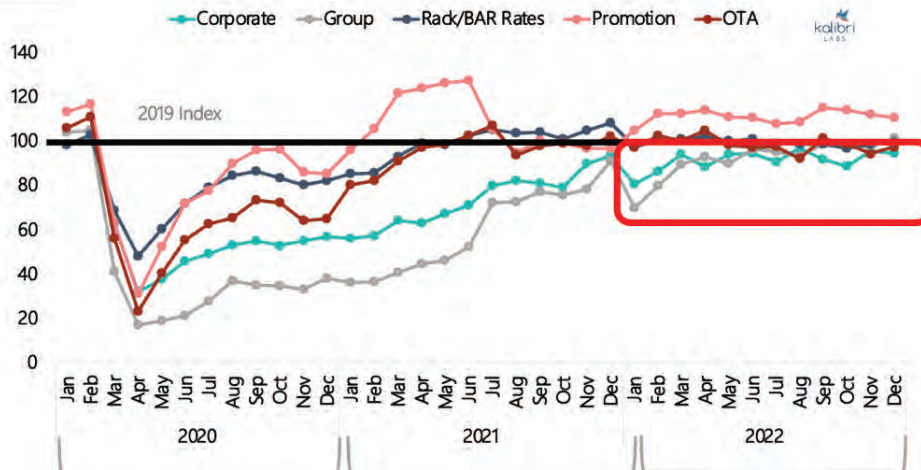


Looking at the actual percentage of bookings by rate category, the changes reflect some meaningful shifts over the past 3 years.

- Of increasing importance to brands is the number of guests who are buying loyalty member rates, which was over 40% of all bookings in 2022 (an increase of 23% over 2019), and some appear to be at the expense of Rack/BAR which declined but Rack/BAR and loyalty rates combined still made up a larger percentage of the total in 2022 versus 2019.
- Long term stay business more than doubled to 7.4%.
- Advance Purchase business in 2022 grew almost three times the 2019 level as a percentage of the total. While a small portion of Brand.com, it is important to track since it competes with the OTA merchant model business, the most popular OTA model sold in the U.S.



January 2019–December 2022
indexed to 2019



- Corporate and group bookings, while still not reaching 2019 levels, have rebounded quite well, especially in the second half of 2022. In addition, bookings through all five of these rate categories, have all been begun to perform more consistently, without the wide gaps that were seen in 2020 and 2021.
- While there was a wide disparity in the recovery timeline of demand by rate category, the performance from an ADR perspective was much more consistent. Group and corporate room rate growth lagged the other 3 rate categories, but not nearly as much as they did from a demand standpoint. Pricing in all 5 categories surged above 2019 levels by the 2nd quarter of 2022 and have remained about that for the remainder of the year.
- Late in 2022 all five of the rate categories achieved RevPAR production at or above 2019 levels. The revenue levels for both corporate and group were primarily driven by ADR growth while Promotion/LMR, Rack/Bar and OTA revenue performance was the result of more blended growth in both demand and ADR.

INDUSTRY PERSPECTIVE



Drew Pinto

Marriott International
Executive Vice President and
Chief Revenue & Technology Officer

How long have you been in or involved with the hotel or travel industry?

- >> I have worked in the hospitality industry for nearly 20 years, holding various roles at Marriott International dedicated to driving growth and revenue across Marriott's sales channels.

How does the issue of digital distribution matter to hotel operations, marketing and/or asset management?

- >> Effective digital distribution enables the growth of higher-value bookings at lower costs. Hotels can target the most loyal, profitable customers via direct channels, and leverage indirect channels to expand the sales funnel to reach more customers cost effectively. This leads to greater return on marketing spend, lowering overall costs of hotel operations, and increasing brand value.

What are the top 3 issues that you expect will have the greatest impact on customer acquisition for hotels in the next two-three years?

- 1 Financial Technology (fintech)
- 2 Shift to mobile
- 3 First-party data

What is the smartest move you have seen deployed for customer acquisition in the digital market?

- >> Some new channels have tapped into younger generations' price-consciousness and desire for flexibility through fintech. Being at the top of consumers' digital wallets will gain a share of wallet advantage.

What is the smartest move your organization has made related to customer acquisition in the digital market?

- >> Our hyper-focus on ensuring Marriott's direct channels have the lowest rate has noticeably shifted share from third parties. Get more customers on our channels, enroll them in Marriott Bonvoy, and have them stay with us again. We get better insights into preferences and behavior to help us personalize and curate relevant offerings to them in the future. This creates a powerful customer engagement loop.

What is the single biggest oversight or misstep that has led to a key learning related to customer acquisition in the last 2-3 years?

- >> Associates need tools to do their jobs more efficiently and automate repetitive tasks so they can focus on our guests, like automating the booking process for small, simple meetings.

What three things would you suggest about customer acquisition and digital distribution to have the greatest impact on unit level profit and asset valuation?

- >> 1) Enhancing the content we present on our digital channels
- 2) thinking about on-property experiences to sell digitally, pre-arrival.
- 3) Upsell and grow ancillary spend through digital.

What is the next thing that you predict will diminish in importance and gradually fade away that is currently a part of customer acquisition in the digital market?

- >> Anything requiring manual interaction with the property. Meeting planners don't want to submit RFPs and wait for responses. For small and simple meetings, everything should be able to be booked instantly online.

Given many large new consumer-facing companies with an interest in playing a role in selling hotel rooms online, how do you expect this to play out in the next 5 years?

- >> Travel can deliver aspirational experiences for their customers to create loyalty while driving revenue and profits for shareholders. We expect there to be a battle to create value through payment and loyalty programs.

If you had a crystal ball, what emerging technologies or business models do you anticipate could be game changers in the next 2-3 years?

- >> The travel companies that figure out how to scale fintech and create digital wallets will be at an advantage by creating loyalty through payments. Hotel brands will either build or partner to create these capabilities and we expect direct, digital channel share will continue to grow based on consumers' trust in the brands and their loyalty programs.

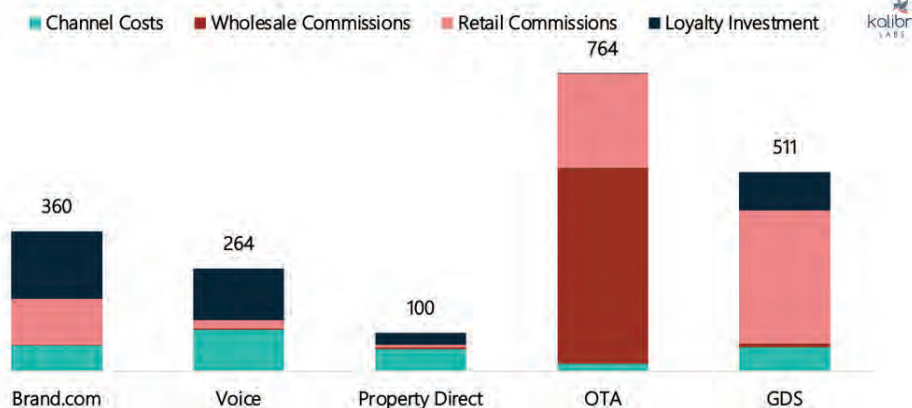




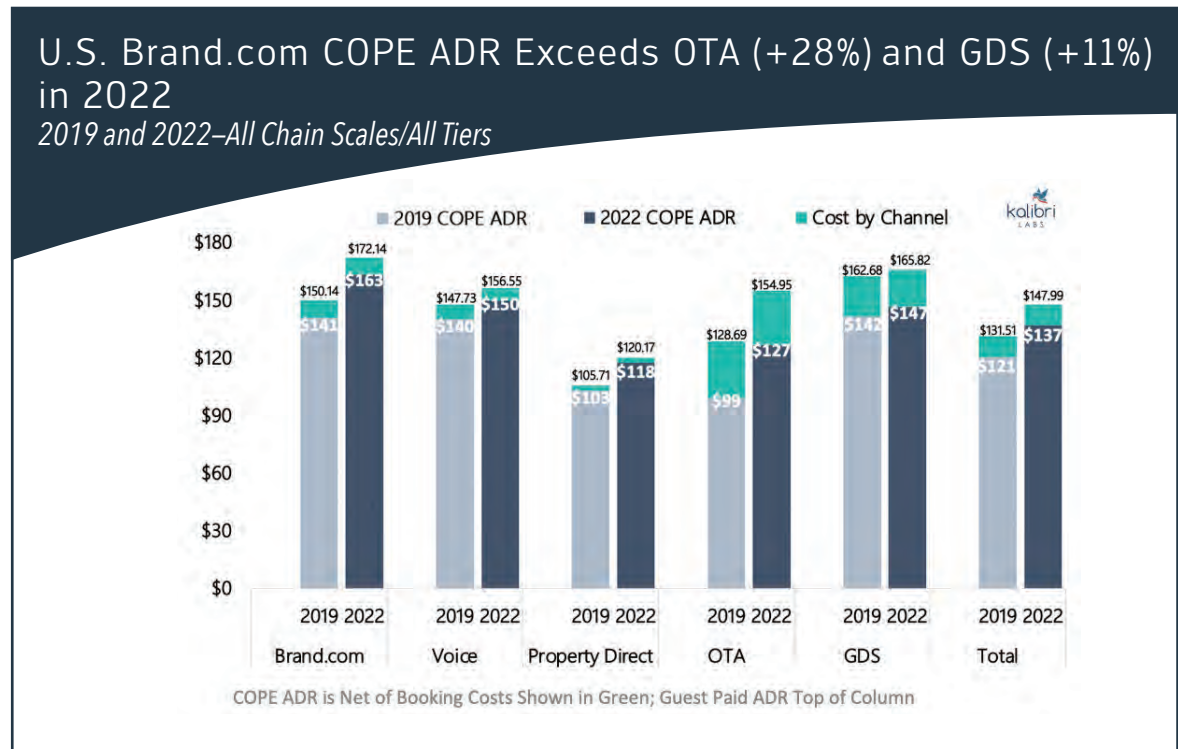
Cost of Acquisition

- When analyzing overall cost of customer acquisition, it is important to remember that every channel has some booking costs associated with it. There is no such thing as a cost free booking channel. With that in mind, understanding each channel's actual cost is a critical first step in planning a strategy around managing a hotel's business mix.
- Generally speaking, there are 4 major channel costs:
 - Wholesale commissions
 - Retail commissions
 - Loyalty Investment
 - Channel and transaction fees (such as GDS and other connectivity fees)
- By far, the most cost-effective booking channel is Property Direct. It is the least costly channel since its largely used by those guests that walk in, drive up or call direct to the hotel.
- When comparing, or indexing against a baseline of the Property Direct costs, it is clear how much more costly the other channels are to a hotel relative to Property Direct.

U.S. Channel Booking Costs: OTA and GDS are 2-3x Direct Channels *January–December 2022 indexed vs. Property Direct*



Since 2019, booking costs for the other two direct channels, Brand.com and Voice, are 2-3 times the cost of Property Direct bookings. This may seem like a lot but when its compared to the third party channels of OTA and GDS, they run 5-8 times the cost of Property Direct. These costs were not materially different than in 2019, except GDS business costs had declined as a total cost largely due to the overall drop in this channel relative to the others.



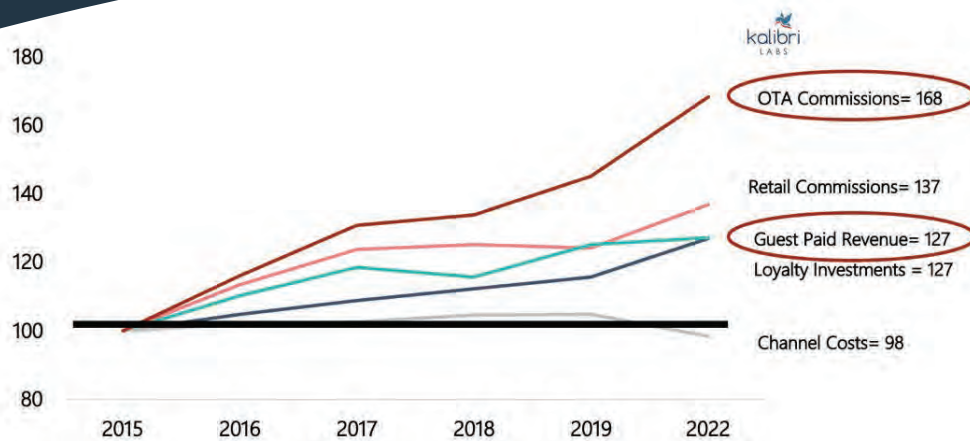
COPE ADR is ADR less direct transaction costs (COPE = Contribution to Operating Profit and Expense)
The value above each column is the Guest Paid ADR and the value in white font is the COPE ADR.

- In 2019, Brand.com COPE ADR (net of acquisition costs) had been consistently very much the same as GDS COPE ADR but by 2022, it was 11% higher.
- In 2022, the COPE ADR for Brand.com exceeds the OTA COPE ADR by 28%.
- In terms of absolute dollar costs associated with the various booking channels in 2022, they range from about \$2.50 for Property Direct to a high of about \$28 through the OTA channel. In total, the average transaction cost in 2022 was \$11 or about 7.5% of room revenue. This does not include the sales and marketing expenses which are more than twice the direct transaction fees with total customer acquisition costs ranging from 15-25% of guest paid revenue. In the pre-Internet market, costs were closer to 5-7% of guest paid revenue.



OTA Commissions Growing More than 2x Rate of Guest Paid Revenue

January 2015–December 2022 indexed to 2015



- Guest Paid Revenue growth in the US hotel industry has been strong when indexed against 2015 (27% growth)
- When compared to the growth in booking costs, channel fees, loyalty costs and even retail commissions grew at a similar pace, not detracting from profitability.
- OTA commissions have been growing at 2.5 times the rate of growth of guest paid revenue.



INDUSTRY PERSPECTIVE



Rob Torres
Expedia Group
SVP Media & Affiliate
Solutions, Expedia Group



How long have you been in or involved with the hotel or travel industry?

- >> I have worked in the travel industry since the early 90s. I spent the last 15+ years at Google as the managing director of advertising and marketing for the company's travel vertical. Before that, I spent 7 years at Expedia Group as vice president of strategic accounts, working closely with key hotel partners. Recently I returned to Expedia to oversee its global advertising and retail affiliates business.

How does the issue of digital distribution matter to hotel operations, marketing and/or asset management?

- >> It is extremely important to hotel marketing and customer acquisition. There is a need to deliver on the promise of personalization, reaching and inspiring the right travelers at the right time and can help hotels connect with other players that offer travel as part of their loyalty offering, such as bank loyalty programs to reach even more customers.

What are the top 3 issues that you expect will have the greatest impact on customer acquisition for hotels in the next two-three years?

- 1 Accessibility—Travelers would choose a travel option that is more inclusive even if it is more expensive.
- 2 Flexibility—Travelers still place emphasis on the ability to get a full refund if they need to cancel.
- 3 Pricing—Price and value continue to play a crucial role in how travelers make purchase decisions.

What is the next thing that you predict will diminish in importance and gradually fade away that is currently a part of customer acquisition?

- >> Third-party cookies. Quality will become more important than quantity, leading to increased relevance and value that will enhance the traveler's experience. Companies that have a good understanding of their first-party data will be in a better position to succeed without third party cookies.

What is the smartest move your organization has made related to customer acquisition in the digital market?

- >> We are establishing an ecosystem where startups, influencers, developers, data scientists, and marketers can collaborate to develop innovative methods to facilitate and sell travel. We are re-architecting our platform with open APIs to provide a complete e-commerce suite of building blocks, including fraud, payment, supply, and service. This approach will attract more players to the travel ecosystem, thereby expanding reach and demand for everyone involved. Our vision is to create a platform that empowers partners of all sizes with the technology and supply necessary to thrive in the travel market.

Given many large new consumer facing companies who have signaled an interest in selling hotel rooms online, how do you expect this to play out over the next 5 years?

- >> We believe that healthy competition is beneficial for all. Our key focus is on providing end-to-end support to help our partners' brands excel, utilizing our robust marketing and merchandising capabilities to increase site traffic, customer acquisition, and foster brand loyalty.

If you had a crystal ball, what emerging technologies or business models do you anticipate could be game changers, or at least have the greatest effect on the hotel distribution landscape in the next 2-3 years?

- >> As consumers continue to demand a more relevant experience, personalization will become a crucial factor in setting businesses apart. Data, analytics, and AI will play a significant role in enabling hotels to gain valuable insights into their customers and connect with the right travelers. In addition, loyalty programs will become increasingly important for hotels, as travelers become more selective in their booking decisions.

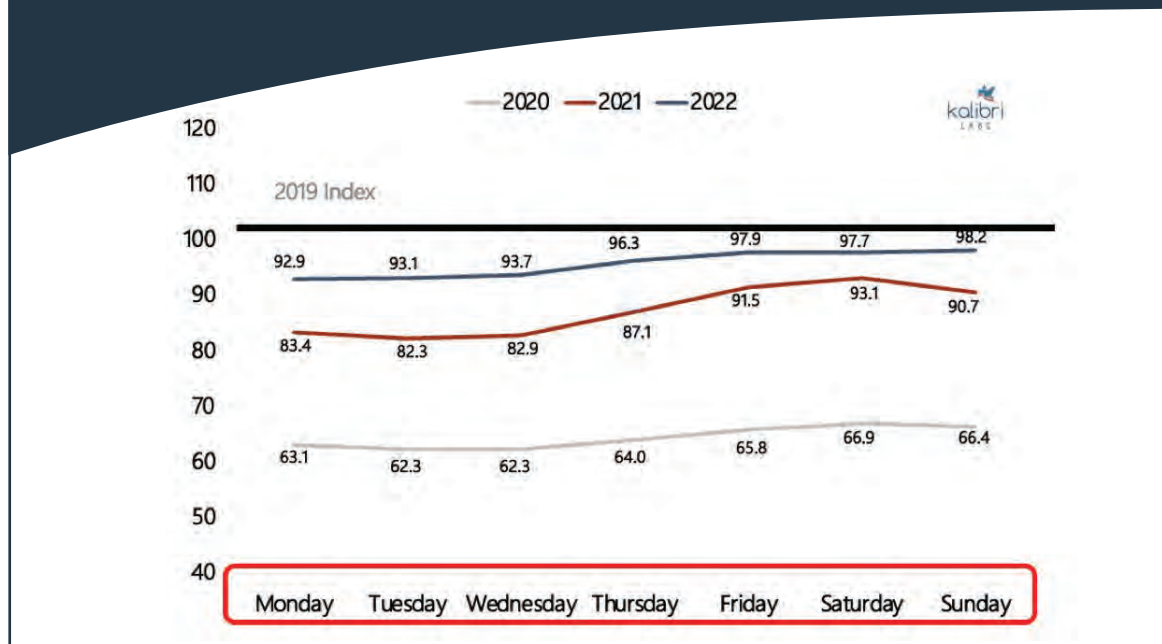




Day of Week and Length of Stay Performance

Two of the more interesting shifts in consumer behavior occurred during the early recovery stages from the pandemic, many of which are still in place today. The two most dramatic are a shift in day of week occupancy performance and longer average length of stay (LOS) changes. While these may be two different topics they are interrelated, as the increase in the LOS played a huge role in the changes in day of week occupancy.

U.S. Occupancy: Underperforming 2019 Every Day of the Week January 2020 – December 2022 indexed vs. 2019

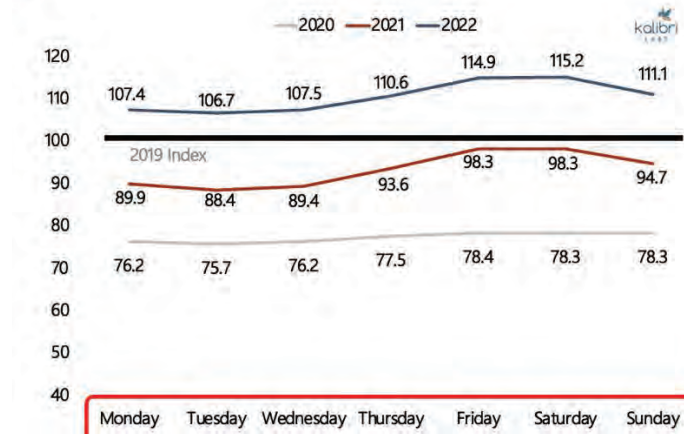


Occupancy levels for every day of the week in 2022 underperformed those of 2019, with weekends being closest, but still coming in below 2019 levels.

- A closer examination of occupancy achieved last year by day of week reveal a major disruption from historical day of week performance. Traditionally, each day of the weekday range, (defined as Sunday through Thursday) behave similarly to one another, while weekend days, Friday and Saturday also perform in a similar pattern.
- Coming out of the pandemic, the pattern has shifted. The shoulder days of Sunday and Thursday which in pre-pandemic were the weakest performers, began to show occupancy patterns that looked much more like weekend days than weekdays. As an illustration, when looking at an index of 2022 occupancy performance (versus 2019) the data reveals that Sunday was the best performing day of the week, followed by Friday and Saturday.
- At the other end of the daily occupancy performance spectrum was the Monday thru Wednesday time period, each well below 2019 levels in 2022.

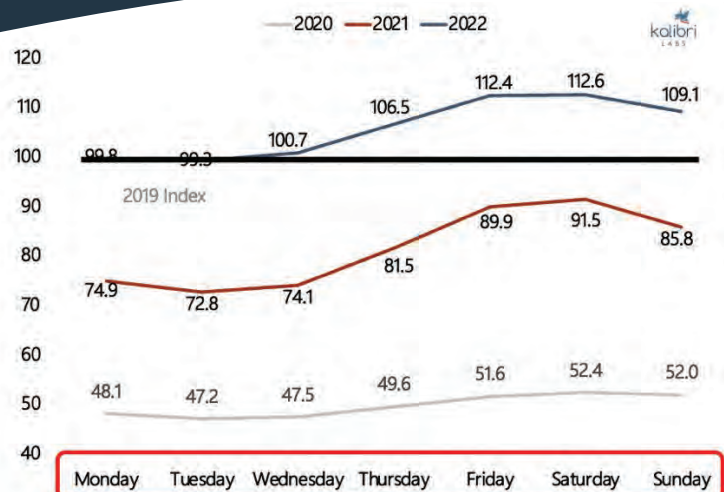


U.S. ADR: 2022 Outperformed Every Day of the Week vs. 2019 *January 2020 –December 2022 indexed vs. 2019*



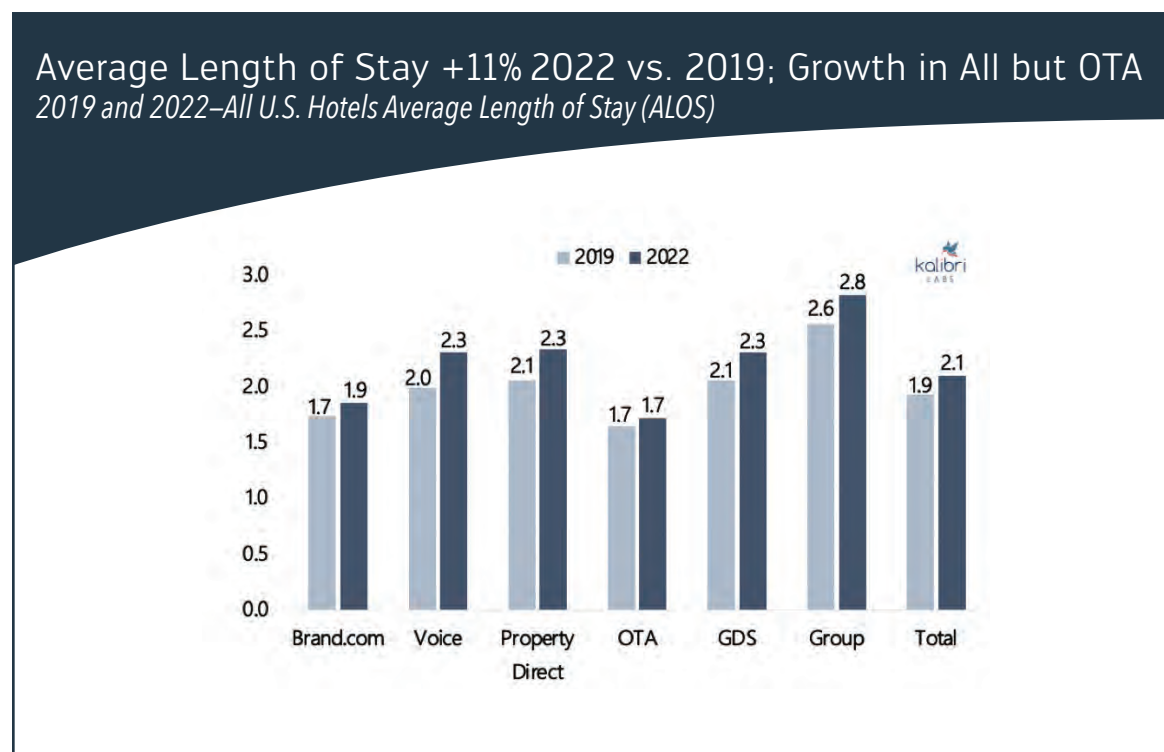
Capitalizing on stronger demand on the Thursday thru Sunday time frame hoteliers were able to raise room rates at a much faster clip on those days than during the weekdays. In fact, room rates during the shoulder and weekend days averaged more than 10% higher than room rates achieved during the same days in 2019. Conversely, room rates in the Monday thru Wednesday days, while above 2019 levels, lagged the weekend rate growth.

U.S. RevPAR: 2022 Outperformed Thurs-Sun due to ADR *January 2020 –December 2022 indexed vs. 2019*



When unpacking the strong RevPAR growth for the U.S. hotel industry in 2022, it was entirely driven by the ADR performance from Thursday through Sunday. The question remains as to whether this pattern is sustainable or if Monday through Wednesday may strengthen to compensate for some leveling off that may be expected for the Thursday to Sunday period.

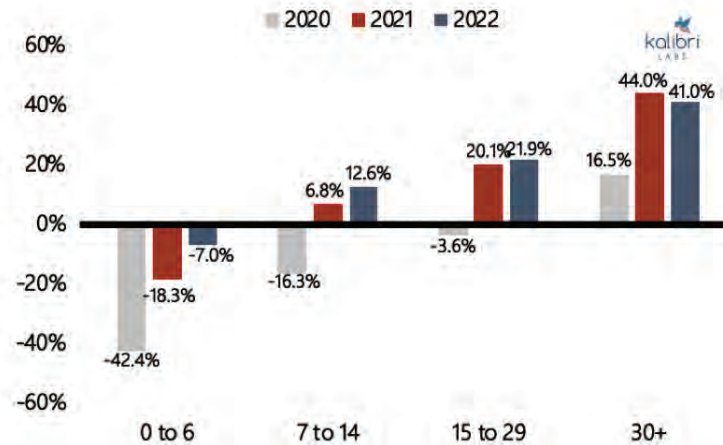
One of the driving forces propelling increased demand and occupancy on the shoulder days of Thursday and Sunday appeared to be many guests' willingness to extend their trips for an extra day or two. This was especially true of leisure travelers who frequently extended their weekend stays to include either Thursday or Sunday. It is assumed that the number of workers that can work remotely likely contributed to this trend.



- In 2019 the average length of stay (ALOS) for guests in U.S. hotels was 1.9 nights, meaning the majority of guest stays were for 1 night. In fact, over 64% of all hotel stays in 2019 were for just one night.
- Contrast that to the 2022 where the average length of stay (ALOS) was 2.1 nights. While the 0.2-point increase in the ALOS may not seem dramatic, from an industry performance standpoint the change had significant implications. After making some informed assumptions about supply and occupancy for each of the two years in question, a higher ALOS means that there were, in fact, fewer guests check-ins in 2022, when compared to 2019. So, while RevPAR exceeded pre-pandemic levels in 2022, actual guest demand for hotel rooms was weaker than the revenue growth would imply because there were fewer guests in hotels.
- A way to think about the impact of ALOS is that if all other factors remain static (supply, demand and occupancy), a longer ALOS results in fewer check-ins to achieve the same demand levels. Conversely, a shorter ALOS has the opposite effect, meaning that more check-ins are required to maintain consistent demand levels.
- The question facing the industry is whether this increase in average length of stay (ALOS) is an outlier or a reset in behavior that will persist going forward. Should the ALOS remain at this inflated level even when transient business travelers and group return closer to former levels, it would be a very positive development for the hotel industry. Having to find acquire fewer guests and cleaning fewer rooms bodes well for profit margins.



U.S. Average Length of Stay: 2022 outperforms 2019 in 7+ Days *January 2020 –December 2022 indexed vs. 2019*



- While stays of 7 nights or more reflected the largest increase in percentage room night growth in 2022, the biggest gain was shown in the 7-14 night stays, clearly benefiting extended stay hotels more than other property types.
- However, to keep this in perspective, room revenue for all stays in the U.S. of 7 nights or more in 2022 was still a minority, representing just under 20% of total guest spend as a percentage of total U.S. revenue.

Rate Category Analysis

- While there are literally hundreds of rate categories that guests can use to book a hotel room, there are 5 major categories that represent about 85% of all bookings. As such, what happens with five listed below shows trends and changes in consumer behavior.

The five are:

- Corporate
- Group
- Rack/Bar
- Promotion/Loyalty Member Rates (LMR)
- OTA

- The three rate categories most commonly used by transient leisure travelers, Rack/Bar, Promotion/Loyalty member rates began to rebound to 2019 levels a year into the pandemic. As pent-up demand for leisure travel soared, guests consistently took advantage of the benefits of booking the Promotion/LMR rates. Since the rebound began, this rate category has generally been booked at levels above those achieved pre-pandemic.



INDUSTRY PERSPECTIVE



Lovell Casiero
PM Hotel Group
SVP of Commercial Strategies



Tina Meredith
PM Hotel Group
VP of Revenue Management

How long have you been in or involved with the hotel or travel industry?

TINA MEREDITH I have been in the industry for 33 years. The last 23 years has been in Revenue Management and E-Commerce

LOVELL CASIERO My 35-year journey in the hospitality started in the hotel sales office. Since 2005, I have been in charge of portfolio commercial strategy, with oversight of the direct sales, marketing and revenue management of over 100+ properties.

How does the issue of digital distribution matter to hotel operations, marketing and/or asset management?

Based on the current landscape related to expenses, specifically in the area of labor cost, cost of goods, utilities and insurance, the cost of acquisition has never been more important.

What are the top issues that you expect will have the greatest impact on customer acquisition for hotels in the next two-three years?

The ability to attract talent will affect the property fully bringing back amenities and guest service levels could suffer.

Continued impact of inflation on consumer's spend on travel.

The future of the geopolitical climate including sustainability, immigration, and the ancillary fees hotels can charge.

What is the smartest move you have seen deployed for customer acquisition in the digital market?

Hilton for the Stay campaign attracts clients to book direct.

What is the smartest move your organization has made related to customer acquisition in the digital market?

We control the management of marketing campaigns internally which has lead to better growth in direct channels.

What is the single biggest oversight or misstep that has led to a key learning related to customer acquisition in the last 2-3 years?

Reducing digital media spend in early 2021 caused a direct, and negative impact to the portfolio's RevPAR Index for 2 months; making us realize the importance of ensuring consistent digital funding.

What would you suggest about customer acquisition and digital distribution to have the greatest impact on unit level profit and asset valuation?

- 1 Focus on and monitor channel mix using an effective platform and develop efficient strategies to increase room nights.
- 2 Be intentional about spending marketing dollars to drive guests to digital assets with investments in content and functionality.
- 3 Use multiple comp sets versus just focusing on one primary set. There is a lot of noise that can be present in STR comp sets.

What is the next thing that you predict will diminish in importance and gradually fade away that is currently a part of customer acquisition in the digital market?

>> It's not about the fading of OTAs, but more about but how they will be utilized going forward. While we all should be focused on driving reservations through lower cost channels, the reach and exposure you can get on OTAs can be greater than a hotel, or its brand, can get on their own.

Given many large new consumer-facing companies with an interest in playing a role in selling hotel rooms online, how do you expect this to play out in the next 5 years?

>> There is the potential for cannibalization between these companies. In the long-run, brands may have to get more creative to attract and keep their rewards members and other direct bookings. In the owner/operator space, it may become more difficult and costly to execute channel management with these new entrants into the hotel distribution landscape. OTAs are likely to feel the largest impact initially.

If you had a crystal ball, what emerging technologies or business models do you anticipate could be game changers in the next 2-3 years?

>> Mobile technology will continue to evolve and grow as a platform, which will reduce the need for call centers/voice reservations.

The advancement of Revenue Management software so they can manage channel distribution, which could affect how sales and marketing resources are deployed in the discipline going forward.



INDUSTRY PERSPECTIVE

OMNI HOTELS & RESORTS

Jamie Pena
Omni Hotels & Resorts
Chief Revenue Officer



How long have you been in or involved with the hotel or travel industry?

>> I started in the hotel business during college in 1992 in F&B.

How does the issue of digital distribution matter to hotel operations, marketing and/or asset management?

>> The complex distribution marketplace is important to understand in order to be an effective steward of marketing resources. Connecting the dots between marketing tactics and actual reservations is more complex than ever.

What are the top 3 issues that you expect will have the greatest impact on customer acquisition for hotels in the next two-three years?

- 1 We finally have tools to understand the true cost of sale for each distribution channel. That will change the way people think about resource deployment across segments.
- 2 Understanding how to "show up" in new social media channels will create competitive advantage.
- 3 Competition will require brands to address customers who expect frictionless, instant gratification planning tools.

What is the smartest move you have seen deployed for customer acquisition in the digital market?

>> I really admire what Crumbl Cookies has done with their app... it's a combination of Uber Eats + Bakery + Fresh Content (recipes) weekly.

What is the single biggest oversight or misstep that has led to a key learning related to customer acquisition in the last 2-3 years?

>> OTAs have become very savvy at convincing hotels to "stack" initiatives that create very expensive costs of sale. For example OTAs get their margin; then an offer for their membership program and then they want us to buy travel ads. Not having visibility to really understand their total cost will be a miss by many brands.

What three things would you suggest about customer acquisition and digital distribution to have the greatest impact on unit level profit and asset valuation?

>> (1) Rate parity can dilute Return on Ad Spend (ROAS) quickly and drive customers to Third Party bookings. (2) strong consumer review scores and great guest experience will always put a hotel in a stronger position; (3) business mix that contributes to profit margins including ancillary revenue, rather than a traditional focus on top line only.

What is the next thing that you predict will diminish in importance and gradually fade away that is currently a part of customer acquisition in the digital market?

>> Loyalty programs are expensive for brands/platforms to maintain, and most people join 17 but only engage with 2 or 3. Loyalty programs won't completely fade away but those that really engage the traveler will do well and those that remain as legacy point-based offerings will not be well received by consumers.

Given many large new consumer-facing companies with an interest in playing a role in selling hotel rooms online, how do you expect this to play out in the next 5 years?

>> I think the banking loyalty programs are gaining traction due to the sophisticated payment options. (pay later; freeze interest, etc.) I don't think they hurt OTAs yet as they are currently just another "partner" for them to distribute content and rates/inventory to. This may change as the bank programs grow and they get direct inventory skipping the OTA. I think the learning for hotels is that we need to become more evolved with payments.

If you had a crystal ball, what emerging technologies or business models do you anticipate could be game changers in the next 2-3 years

>> Payments are the next big thing!

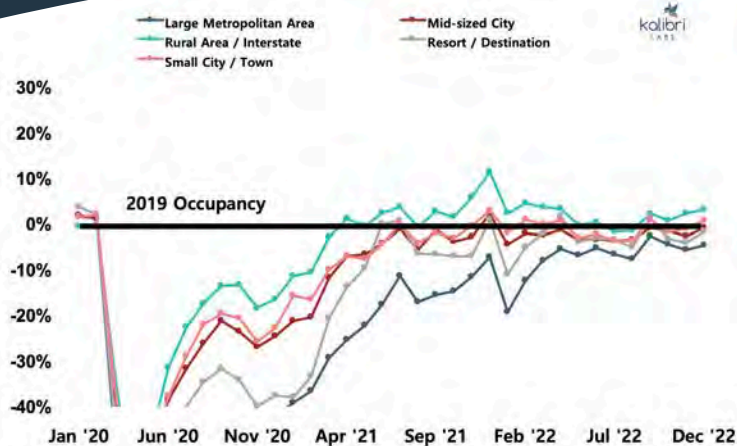




Analysis by Location Types and Markets

U.S. Occupancy: Rural and Small Cities are Outperforming vs. 2019 in Dec. 2022

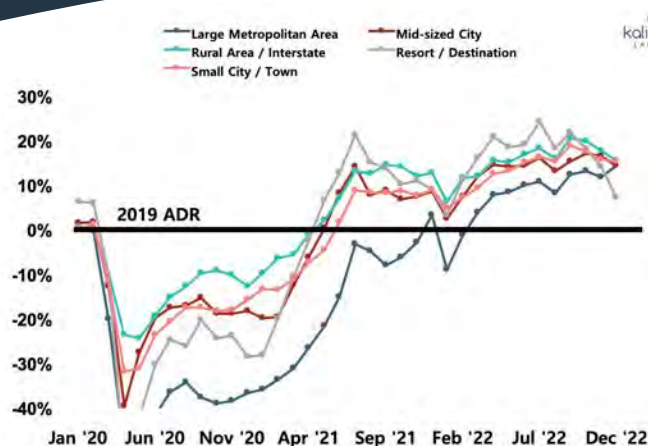
January 2020 - December 2022 - Indexed vs. 2019



Despite a nice occupancy recovery by the Large Metropolitan Markets in the second half of 2022, their performance still lags that of the other location types. As the primary demand generators for these markets are corporate and group travel, they are likely to lag in Occupancy until those segments experience improved recovery.

U.S. ADR: All Market Types are Outperforming vs. 2019 in 2022

January 2020 - December 2022 - Indexed vs. 2019

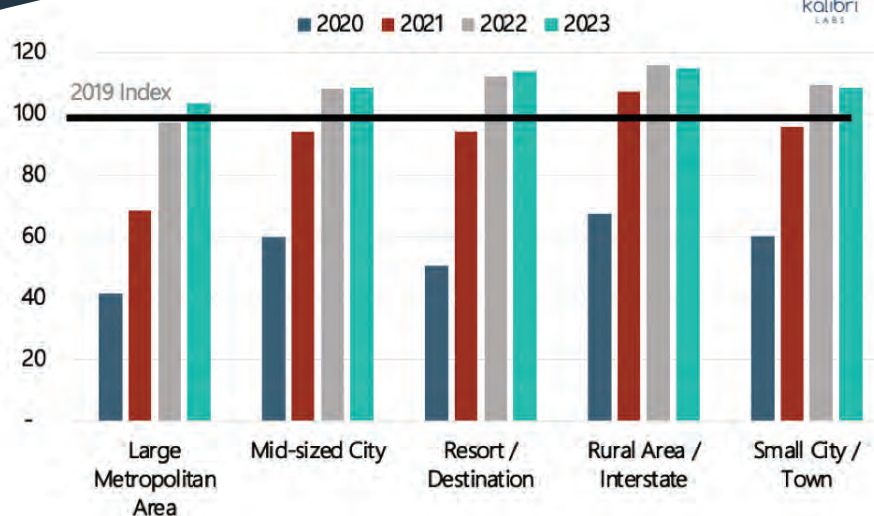


Since Q2 of 2022, the aggregate of hotels in each location type have been able to consistently maintain pricing levels that are significantly above comparable levels in 2019. These rates were driven by leisure business and by those travelers that combined business and leisure trip purposes and were strongest on Thursday through Sunday.



Large Metro Areas Reach 2019 RevPAR in 2023; Rural/Resort Strongest

January 2020–December 2023 (f)
indexed to 2019



- With corporate and group travel extremely slow to rebound over the past two years, it not surprising that large metropolitan areas have been the slowest to recover, from both an occupancy and ADR standpoint. In fact, they are the only location type to not recover to 2019 levels in any one month in either 2021 or 2022.
- While mid-sized cities have also been slow to recover, there have been a few months where occupancy levels in those cities have met or been slightly above pre-pandemic levels.
- Hotels in rural areas/interstate and small city/town have bounced back relatively quickly. These markets have consistently been above 2019 occupancy levels since the second quarter of 2021.
- Despite the impressive level of rate growth seen by hotels in large metropolitan areas, there was a significant lag between their collective ability to accelerate room rate growth compared to hotels in the other location types. In addition, the level of room rate growth over the past year has exceeded historical growth seen in the last 3 decades. That level of room rate acceleration is likely unsustainable going forward into 2023.

Its easy to examine performance at a market level, however that can be misleading since most markets are really just aggregations of sub-markets, each of which can have totally different demand and ADR patterns. For that reason, it is much more informative to analyze sub-markets individually.



Hotel Performance–Drop in Commercial % Room Nights

Even when commercial is close to half, decline amount is specific to the market type

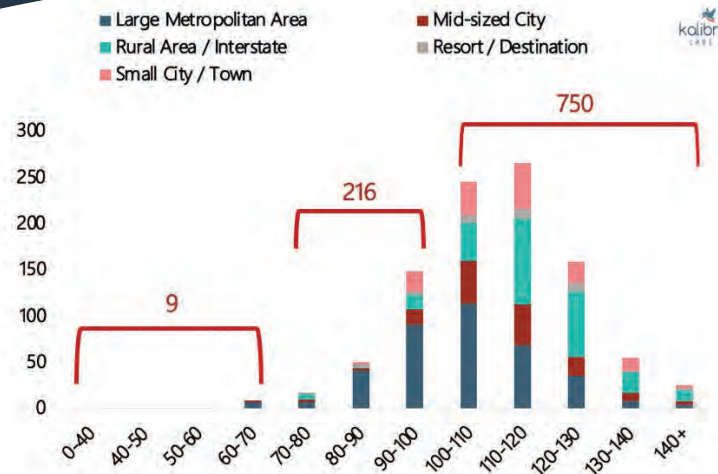
	2019 %	2021 %	2021 Change vs. 2019	2022 %	2022 Change vs. 2019
U.S.	48.8	42.4	-13.1%	47.6	-2.5%
Major Markets (Top 50)	48.9	40.0	-18.2%	46.7	-4.5%
Mid-Sized City (51-100)	49.4	43.7	-11.5%	48.5	-1.8%
Small City/Town	49.4	44.8	-9.3%	48.9	-1.0%
Rural/Interstate	50.3	47.8	-9.3%	50.7	0.8%



- When looking at the percentage of commercial business by location, each location type, with the exception of rural/interstate are still below 2019 levels, although each has shown a significant increase over 2021. As expected, the greatest shortfall is in Large Metropolitan areas as a result of their historical mix of business.

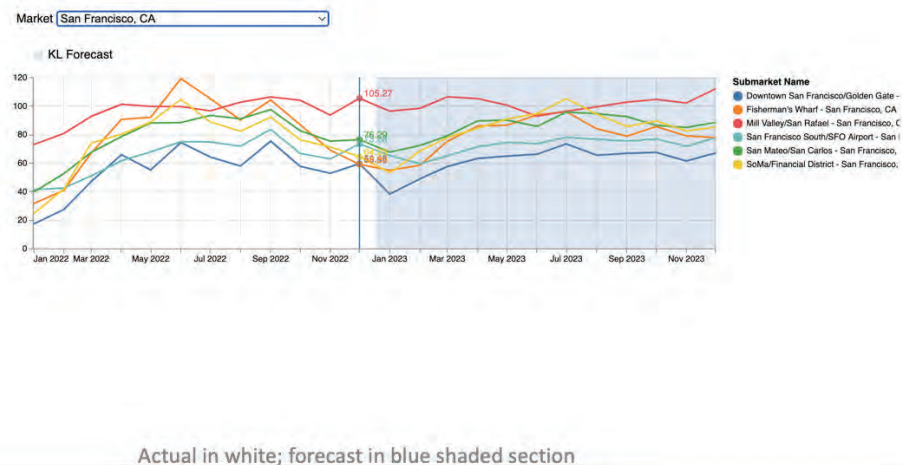


U.S. Guest Paid RevPAR Index by Market Type for all 975 Submarkets 2022 Indexed vs. 2019



During 2022 over two-thirds (750) of all submarkets outperformed 2019 from a RevPAR perspective, that is they reached 100% or greater of 2019 RevPAR. There are still some in the middle-of-the-pack (216) that are running 70-100% of 2019 levels. There is only a handful (9) that remain below 70% of 2019 levels. The majority of the sub-markets whose recovery still lags are generally in the downtown areas of major markets. As those sub-markets tend to rely on group and transient corporate travel, they will continue to underperform into 2023.

Nearly all of San Francisco's Submarkets Underperform 2019 RevPAR performance vs. 2019–forecast Jan 2023–Dec 2023



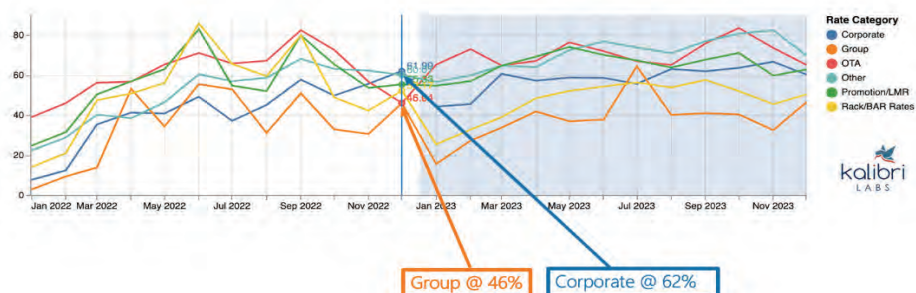
Using San Francisco as an example, there is a wide range between submarkets from Mill Valley performance of 105% of 2019 RevPAR to downtown San Francisco at 59% of 2019 RevPAR performance.

Downtown SF is the lowest performer at 59% of 2019 in Dec 2022
RevPAR performance vs. 2019—expected to run 60-80% of 2019 thru 2023



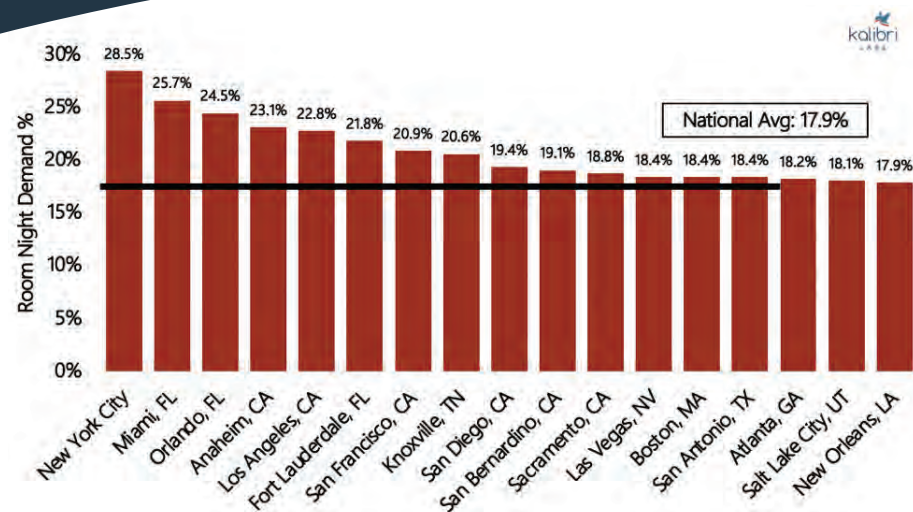
In looking at the downtown San Francisco market, it appears that the performance through 2023 is not expected to exceed 75-80% of 2019 levels. Understanding the composition of that RevPAR is helpful to prepare for the next phase of recovery.

Group is just 46%; Corp is 62% of 2019 in Dec 2022 for Downtown SF
OTA is only 47% of 2019; Rack/BAR & Loyalty/Promotion is <55% of 2019 thru Dec 2022



It's clear that the drivers of San Francisco's 2022 performance are the gap in Group and Corporate when compared to 2019 when as of December 2022, group was running 46% of 2019 and Corporate was 62% of 2019. Until these segments recover more fully, the entire submarket will be delayed in returning to pre-COVID levels of business.

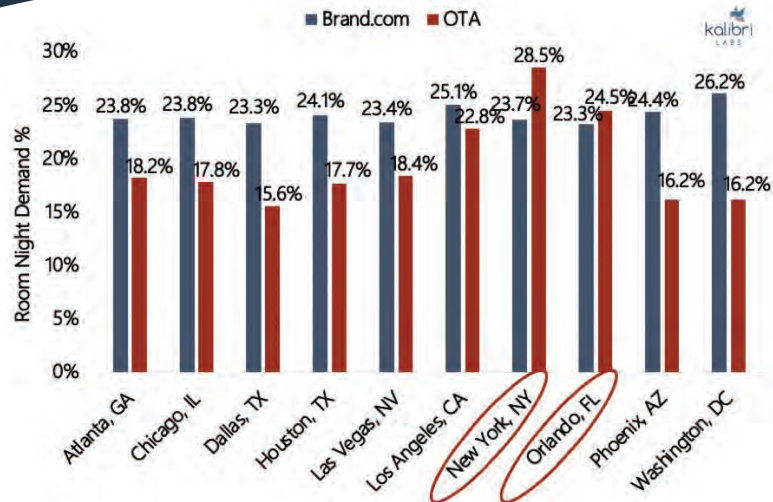
OTAs dominate Demand Share in Florida and California in 2022 17 of the largest 50 markets exceed the National Average



In 2022, there were 17 out of the 50 major markets where OTA business surpassed the national average of 17.9%. Not surprising, popular leisure destinations were most likely to be in this group such as NYC, Miami, Orlando and Anaheim. In 2019, there were only 15 markets for which OTA business exceeded the national average.



Major Markets: OTA Share outperforms Brand.com only in NYC & Orlando
 U.S. Hotels 2022 National Averages:
 Brand.com 24.7% and OTA 17.9%



Despite the high percentage of OTA bookings in some of the markets referenced, most of them still had a higher percentage of demand through the Brand.com than through the OTA channel. Only NYC and Orlando have more business through the OTA channel than Brand.com.



INDUSTRY PERSPECTIVE



APPLE HOSPITALITY REIT

K.C. Gallagher
Apple Hospitality REIT, Inc.
Senior Vice President and
Chief Operating Officer



How long have you been in or involved with the hotel or travel industry?

- >> I am approaching my 20th year in the industry, entirely in asset management on the ownership side with Apple Hospitality REIT.

How does the issue of digital distribution matter to hotel operations, marketing and/or asset management?

- >> Hotels have to continue to adapt to the ever-changing and growing digital environment and adjust commercial strategy and related deployment of resources. It is critical for hotels to know their sources of business, then build dynamic strategies to go after that business. Robust digital strategies are a key pillar of a hotel's commercial strategy.

What are the top 3 issues that you expect will have the greatest impact on customer acquisition for hotels in the next two-three years?

- 1 Offering a compelling and differentiated product
- 2 Mobile applications that offer a seamless customer experience. This includes ease of finding the perfect hotel fit, booking, customization of the stay, payment, and facilitating transportation, F&B, events, and beyond. People want convenience and simplification of planning travel.
- 3 Search engine algorithm changes have the potential to meaningfully impact customer acquisition cost.

What is the smartest move you have seen deployed for customer acquisition in the digital market?

- >> Through expanded paid media and meta-search programs, branded hotels have increased options for driving digital direct business.

What is the smartest move your organization has made related to customer acquisition in the digital market?

- >> Access to above property digital support that works closely with revenue management and sales making a more cohesive and integrated commercial strategy team, removing silos. We share digital best practices across our management companies with heads of digital, revenue management and sales because it is critical all commercial disciplines are working together.

What is the single biggest oversight or misstep that has led to a key learning related to customer acquisition in the last 2-3 years?

- >> RMS systems are built to maximize top line revenues and don't account for direct transaction related costs (e.g., those that differ by channel, length of stay, number of occupants per room and others). Hotels would be better served if revenue management systems were designed to consider the costs associated with various pieces of business.

What three things would you suggest about customer acquisition and digital distribution to have the greatest impact on unit level profit and asset valuation?

- >> Develop a commercial strategy that integrates digital, revenue management, and property direct sales and allocates spend/resources accordingly.

Be dynamic! Stay on top of changes in the playing field and tweak strategies as needed.

Focus on gross profit versus gross revenues.

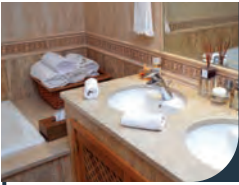
Given many large new consumer-facing companies with an interest in selling hotel rooms online, how do you expect this to play out in the next 5 years?

- >> Brands have improved direct channel volume. I believe OTA gains post-pandemic are due to higher ratios of leisure demand and don't expect it to continue to grow. Hotels will have to adjust digital strategy and focus spend with the third parties that deliver the highest return. That said, brands will have to remain sufficiently differentiated and compelling to maintain their direct business.

If you had a crystal ball, what emerging technologies or business models do you anticipate could be game changers in the next 2-3 years?

- >> Revenue management systems that effectively take into consideration variable costs associated with specific pieces of business and advances in mobile platforms.





Guide to Commercial Strategy

We are living in a world that is undergoing digital disruption, and in this, the hotel industry is not alone. Look at what Amazon did to the main street retail sector or how Spotify has changed the music industry, among others. Add to this the recent pandemic and the related changes in consumer behavior that persist in the market, and it is time to revisit the industry's path to success. The world of 2025 will not be the same as the world of 1995 when many of the current commercial models for pursuing revenue were established. For that reason, it's time to question many underlying assumptions that have been in place: the way the revenue generating/commercial staff is organized; the performance metrics used and the basis for their evaluation; the way hotel budgets are built and assessed.

FIVE THINGS YOU NEED TO KNOW

1. **Cost, Control and Hotel Asset Values**

The economics of hotels are changing due to the dominance of the digital technology companies operating in the market; costs have increased to acquire customers as well as disruption in a hotels' access to travelers as they embark on travel shopping, buying and/or staying. Many technology companies want to provide consumers with tools for each step in their travel journey and these relationships may divert guests from building affinity to individual hotels or hotel brands. All of these factors play into the profitability of hotels. Adding to this are notably higher costs for labor, insurance, tax, utilities and other operating expenses. Being real estate assets, hotels are valued based on profits generated, and when the top line is reduced by costs to acquire the revenue and there is erosion in the base of recurring customers, the asset values are challenged. Commercial strategy is an emerging discipline that enables revenue generation leaders to deploy techniques that put a priority on improving asset values; the commercial team includes revenue management, sales, and digital marketing leaders.

2. **Building a Cohesive Commercial Team: Roles will be Expanded and Coordination is Key**

The legacy "go-to-market" techniques used by hoteliers to get and keep their customers was built in an analog world when most business came direct to a hotel; now that upwards of 80%-90% of a hotel's customers tap digital channels at some point in the travel journey, commercial teams need to adapt to this market reality. The changes may be less about specific organizational structure and more about the way the teams spend their

time. These market changes call for expanded roles for each discipline, especially revenue managers, and the need for a high degree of coordination between revenue management, digital marketing, third party sales, brand marketing and business transient and group sales. One of the biggest changes is the need for the commercial team to intentionally execute on a plan to acquire a realistic business mix accounting for the highest profit contribution possible (by planning for costs of acquisition) and measure results against it; the planning and resource allocation tasks add a strategic element for all members of a commercial team. Leaving daily and hourly changes to automated revenue management systems (RMSs) affords the revenue managers time to apply analytical expertise for a bigger impact on profitability by having longer time horizons for a more sustained market view and to execute on both revenue mix and associated costs.

3. **Spending vs. Investing; Acquisition and Retention**

Customer-facing teams have been highly focused on acquisition and would benefit by also thinking about retention. There have always been budgets for sales and marketing, but in a highly competitive market with many well-funded third parties, intentionally planning for costs for both acquisition and retention become critical. Supplementing the transactional mindset about getting as many customers as possible on a daily basis, with the addition of "lifetime value" based on some degree of recurrence refines a new commercial perspective. This forces commercial leaders to think about which customers to pursue, the best sources to tap for the desired business and acceptance that some expenditures are more of an investment to acquire a recurring customer (ultimately leading to lower costs of



COMMERCIAL STRATEGY IS AN EMERGING DISCIPLINE THAT ENABLES REVENUE GENERATION LEADERS TO DEPLOY TECHNIQUES THAT PUT A PRIORITY ON IMPROVING ASSET VALUES

acquisition) versus a transactional cost to book any room night possible, resulting in hotels cycling through many new customers (and potentially incurring higher costs of acquisition).

4. Nimble Deployment: Picking up the Signals

Consumer behavior is different post-pandemic. This has changed the way hotels get both business and leisure customers, as well as altering the needs of many groups. Conventional wisdom is due for a change. Being nimble is not about daily reactions to spikes in rate or volume, which can often result in lost time chasing outliers (and is already handled well by most RMSs), but rather it is about executing a sustainable plan that is monitored at least weekly but is based on monthly and quarterly time horizons with the *priority of improving profit contribution*. Many factors may change on a monthly basis: (1) number of sales staff and what they pursue in which markets and/or submarkets; (2) decisions about which segments/channels to target; when and how much to spend to achieve this goal; (3) predetermined spending on third party and digital and/or brand initiatives and (4) measuring results based on contribution to profit. Granular data is needed to pick up the signals in each market on demand profiles and cost of acquisition along with coordinated execution with commercial team members.

5. Follow the Money: Fragmentation; Focus on Local and Regional

In the pre-pandemic world, big corporate accounts booked through large travel management companies (TMCs) often using the global distribution systems (GDSs) or sending group bookings, filling many hotels efficiently from a central sales team. Post-pandemic, there is a blending between leisure and business travelers who book many rate categories and use many channels, some controlled locally/regionally and some centrally. When demand is diffused, sales teams have to pursue fragmented sources. This leads to changing expectations for what brands and above property teams can accomplish; commercial teams have to understand the opportunity in their own market(s) and proactively seek assistance to achieve their objectives, whether it's from local sales effort, above property teams or from a global sales team. Making the sales effort efficient in a fragmented market requires a new approach for all teams.

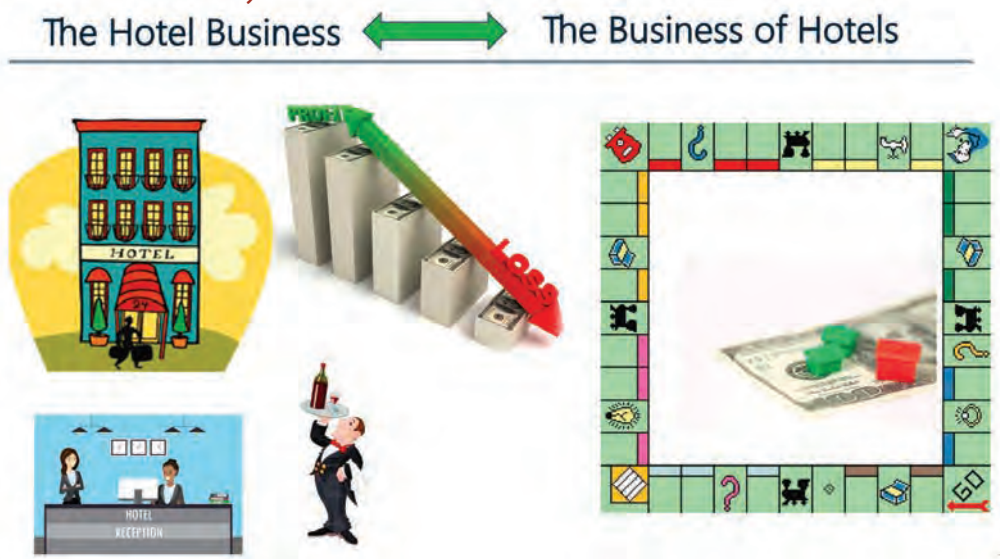


COMMERCIAL STRATEGY CONTEXT AND DEFINITIONS

Why Asset Value Matters to Industry Health

While the hotel industry is a highly service oriented business, its growth is driven by the real estate investors that own hotels and make decisions about brand representation and either self-manage or hire third party operators and asset management. The health of the hotel industry is dependent on the ability and inclination of real estate developers to invest further in existing assets or build and buy new assets rather than allocate capital to non-hotel opportunities. There are millions of staff directly or indirectly employed in thousands of hotel locations that may be affected by increases or decreases in owner investments. The economic health of the hotel industry ripples through the communities in which these hotels operate. Therefore, understanding the connection between digital disruption and hotel asset value is critical. Real estate investors of course must understand this connection, but so too must leaders in brand, loyalty, sales, marketing, finance, operations, and all above-property support teams. In addition, it is vital that property teams, from the General Manager to the division directors to leaders at all levels, understand the relationship between commercial strategy (how to get and keep customers) and asset value. They all must understand the decisions made to acquire business and what it takes to navigate effectively through the turbulence of the digital market. **A better informed community will have a greater chance of maintaining a healthy economy for the hotel industry.**

Show me the Money: How Does it Matter to the U.S. Hotel Industry



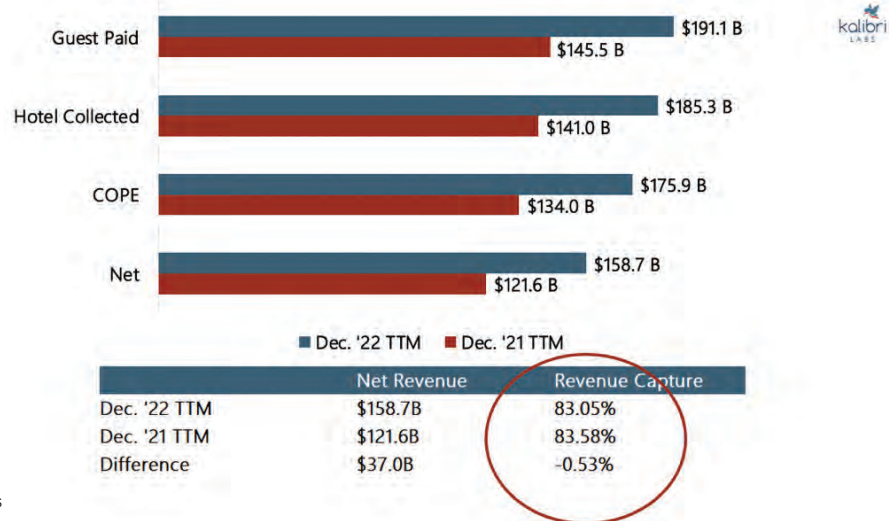
The Hotel Business entails running hotels effectively and the Business of Hotels involves buying and selling the hotels as real estate assets. The connection between the operation of the hotel and its value is connected to its profitability.



As Revenue Capture Declines, Real Estate Values Erode

\$1.01B U.S. Revenue Capture Loss 2022 vs. 2021= \$12.6B

Decline in U.S. Asset Values



Source: Kalibri Labs

Understanding the connection between revenue capture and asset values is more important than ever in the operation of hotels. Revenue Capture equals Net Revenue divided by Guest Paid Revenue

As Revenue Capture Declines, Real Estate Values Erode

Guests paid \$191.1B to all U.S. hotels in 2022. After removing wholesale commissions of almost \$6B that had been taken off the top from online travel agencies (OTAs) and traditional wholesale operators, U.S. hotels directly collected \$185.3B. After taking out another ~\$10B for retail commissions, channel, transaction and loyalty fees, the COPE* revenue remaining was almost \$180B. Another deduction of \$17.2B in sales and marketing costs leaves the hotels with \$158.7B in Net Revenue. The bottom line: U.S. hotels spent a total of \$32.4B to acquire their business in 2022. **Although guest paid revenue grew substantially over 2021, hotels kept a smaller percentage of it due to higher percentage paid in customer acquisition costs.**

Understanding the costs of customer acquisition of all U.S. hotels, along with the revenue that remains, or is “captured,” provides a high level view of the issues facing the industry. This view can be easily translated to any individual hotel. Revenue Capture is a simple calculation representing the amount a hotel keeps (after paying cost of customer acquisition) out of what the guests pay. For U.S. hotels in aggregate, hotels lost ground on this revenue capture percentage from 2015-2019 at the rate of 25-40 basis points per year. During the pandemic, the revenue capture improved for the first time due to a temporary spike in direct bookings in 2020-2021. This was driven more by the customer behavior (type of customer and type of travel) during that time than a purposeful strategy. By 2022, hotels experienced a decline of 53 basis points, meaning there would have been \$1.01B more in the pockets of hotels if the same revenue capture rate had been maintained from 2021. When applying a typically industry average “8-cap,” or a capitalization rate of 8, this equates to a \$12.6B loss in asset value across all hotels in the U.S.

For every tenth of a point in improvement in of profit contribution, or COPE, the industry could have a ~\$25B improvement in asset values across the U.S.(when applying the same valuation metric of an “8-cap” or capitalization rate of 8). In the name of improving the health of the entire hotel ecosystem, shooting for this target seems highly worthwhile. The re-investment in current assets and staff, along



with building new assets will likely pay off in strong economic growth given the key role hotels play in the communities in which they operate.

*COPE=Contribution to Operating Profit and Expense

How to Apply the Commercial Strategy Framework: Redefining Success

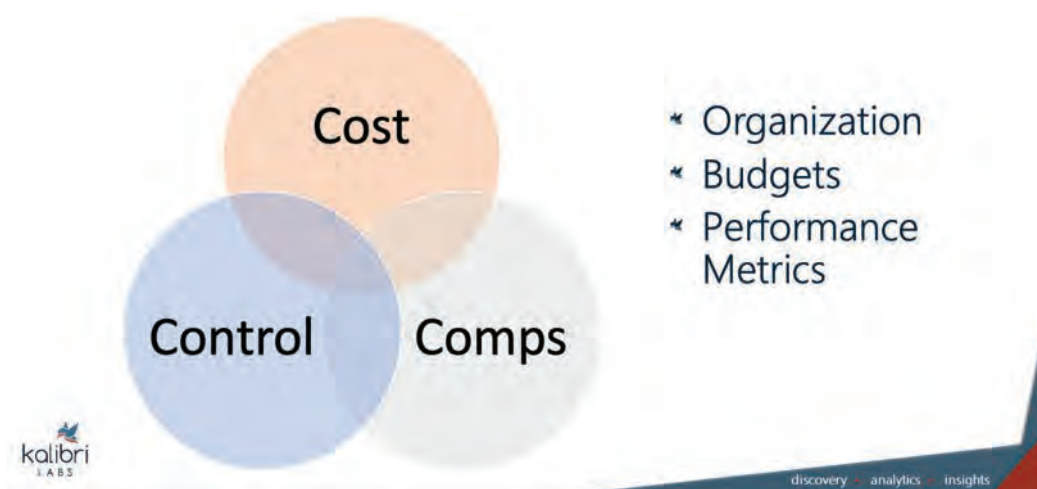
Despite the challenges posed by digital disruption – third parties taking share, banks entering the travel market, large tech platforms dipping their toes into the travel industry – hotels can still operate effectively and profitably in this dynamic marketplace. Hotel owners and operators want to operate profitably no matter how consumer behavior changes or which tech giants are active in the digital market. The Commercial Strategy framework enables hotels to not only survive, but to thrive with nimble customer acquisition and retention techniques that are efficient and empower operators to anticipate the inevitable changes and shifts in an otherwise unpredictable market.

Organizations, like individuals, have finite resources – in a commercial setting, these resources would primarily be time, talent and money. A strategy is a set of decisions that define a plan related to resource allocation. How will we spend our time and money? Put simply, a Commercial Strategy is a plan, or a set of decisions, about resource allocation to drive commercial success. **For hotels, Commercial Strategy is the discipline deployed to get and keep customers in a way that delivers the highest profit contribution to the owner of the hotel.**

How does the hotel industry define commercial success? If you ask revenue leaders, they may point to topline revenue, or perhaps RevPAR index; if you ask sales leaders, they may tell you it's about achieving the targets for group and business transient bookings. A digital leader may say winning is getting the most volume of visitors and bookings through the website or mobile app. And to round out the picture, general managers may say it's about meeting or exceeding their revenue and profit budget. For over 30 years, the baseline industry metric has been RevPAR, and RevPAR index which measures a hotel's relative top line market share compared to a select group of competitors.

Digital Disruption

Driving the Imperative for Commercial Strategy–3 Cs



Cost of acquisition is critical to track and understand. Control of the customer is changing dramatically in a noisy digital market. Identifying your competitors by rate category enables a hotel to pursue each type of business more surgically.



Fast forward to the pandemic years...few can afford to return to the staffing and spending levels of 2019. It can seem daunting to accomplish increased revenue and profit goals with the budget reductions that were initiated since the COVID downturn. When the reset button got pushed, everyone was forced to carefully assess every aspect of how revenue is generated and at what cost.

No one can reasonably expect to do what was done in the past with smaller revenue, sales and marketing teams and reduced spending on digital media, promotion and commissions. However, that doesn't make generating revenue and contributing to profit an impossible task—it just may need to be done a different way that calls for leaving the old structure behind and building a new go-to-market model, one called Commercial Strategy.

As of 2019, hotels were incurring costs of 15% to 25% of what the guests paid to acquire their customers; this included: wholesale/retail commissions, channel/transaction fees, loyalty costs, sales payroll and digital media. While ADR growth in the recovery surprised even the most optimistic, the already crowded market filled with many new digital players making the cost to convert market demand likely to rise, not decline. The hotel industry is highly fragmented and highly competitive; with so many hotels in each market, there is a tendency to try to be available for sale in many sites to avoid missing opportunities to be visible to potential customers. This will not be feasible for the long term given the costs to participate in many channels and the need to focus investment in the sites with highest potential for any given property.

This brings us back to the **key question of how to define commercial success...when you ask hotel owners (the drivers of industry growth), they will tell you: it's all about growing asset value.** To grow asset value, hotels have to pursue the highest cash flow and capture higher net operating income (NOI) over time. That is the part that makes owning a hotel worthwhile; it's the part owners take to the bank. Historically, when customer acquisition costs were relatively low (5-7%) and generally static from year-to-year, and operating costs were more predictable, there was a high correlation between strong top line revenue and profitability. Since the digital market has dramatically increased customer acquisition costs, along with much higher operational costs, that correlation is eroding. The market is more complex – there are more potential distributors for a hotel, more costs associated with maintaining visibility in a busy market, more variability in the types of demand across markets and submarkets, and more unpredictability in the needs of guests for high-cost activities like housekeeping. There are short term implications for profit on a daily or weekly basis and there are medium- and long-term implications on a monthly, quarterly, annual and even a multiyear basis. If a hotel operates entirely on a short-term horizon, looking day-to-day and not taking much action beyond a few weeks into the future, they may lose sight of some opportunities that can create building blocks for a stronger long-term foundation.

Quick Calculator for Asset Value

There are methods used by real estate developers to calculate asset value when evaluating whether to buy, sell or renovate a hotel that consider many dimensions; they use tools like net present value calculations to determine financial benefit from a hotel over time. However, an alternative to the investor model can determine asset value in a way that gives hotel GMs, regional operations executives or members of on- or above-property commercial teams a quick method to assess the impact of discretionary spending decisions; this method also considers Revenue Capture and will be clearer when deploying actions related to commercial strategy. The illustrations below demonstrate how to calculate asset value for a sample hotel.

Considering Revenue Capture in the Models

“Revenue Capture” reflects the hotel's relative ability to keep the revenue paid by guests. That is, the amount left after customer acquisition (or cost of sales) is removed from the top line revenue; this is sometimes called Gross Margin in accounting terms. Simply, it is how much the hotel keeps



of what the guest pays. The industry average at the end of 2022 was 83% but most U.S. hotels run in a range between 75%-85% and due to the wide range of performance across the U.S., many hotels are lower than the average of 83%. The costs include wholesale and retail commissions (even though wholesale commissions do not appear on the standard hotel P&L per USALI); channel and transaction fees; other incentives paid to generate revenue (directly to customers or to third parties); brand loyalty costs and all sales and marketing costs (including franchise and hotel direct; staffing for all revenue generating functions).

Declining Revenue Capture

In the example below, overspending for customer acquisition by \$100,000 (just 2 points) results in over \$1M reduction in asset value

	Hotel Guest Paid Revenue	Revenue Capture*	Net Revenue**	Operating Costs	Net Operating Income (NOI)	Asset Value NOI/cap rate 8-cap***
A	\$5,000,000	83%	\$4,150,000	\$3,400,000	\$750,000	\$9,375,000
B	\$5,000,000	81%	\$4,050,000	\$3,400,000	\$650,000	\$8,125,000
Difference		-2%	-\$100,000	No difference	-\$100,000	-\$1,250,000

*Revenue Capture % = Net Revenue/Guest Paid Revenue

**Net Revenue = Guest Paid Rev - (Booking + Sales & Marketing costs)

***8-cap = capitalization rate used to assess yield of cash flow from a real estate asset; assumes 8% return

Takeaway: for as little as a 2-point decline in Revenue Capture, or \$100,000 in discretionary spending, the hotel has given up \$1,250,000 in asset value.

Improving Revenue Capture

Using the same example, reduced spending of \$150,000 by having a more optimal business mix (3 points better in Revenue Capture) results in almost \$2M increase in asset value.

	Guest Paid Revenue	Revenue Capture*	Net Revenue**	Operating Costs	Net Operating Income (NOI)	Asset Value NOI/cap rate (8-cap***)
A	\$5,000,000	83%	\$4,150,000	\$3,400,000	\$750,000	\$9,375,000
B	\$5,000,000	86%	\$4,300,000	\$3,400,000	\$900,000	\$11,250,000
Difference		+3%	+\$150,000	No difference	+\$150,000	+\$1,875,000

*Revenue Capture % = Net Revenue/Guest Paid Revenue

**Net Revenue = Guest Paid Rev - (Booking + Sales & Marketing costs)

***8-cap = capitalization rate used to assess yield of cash flow from a real estate asset; assumes 8% return

Takeaway: improving asset value by \$1,875,000 is possible with a 3-point improvement in Revenue Capture i.e., the hotel needs to capture and retain only \$150,000 more revenue.



When a commercial strategy team is considering an opportunity to deliver on its top line RevPAR that may seem easy to execute, it is prudent to calculate and discuss the flow-through to profit. If there is little to no flow-through to NOI, or the team spends more to get the top line revenue than you contribute to profit, it will reduce the asset value. For every \$25,000 cost to the hotel, with no compensating contribution to profit, the team should recognize that the asset value will take a hit of \$312,500 (using an 8-cap calculation). Keep in mind that “merchant model” or wholesale business where a third party (like an OTA) collects payment from the guest in advance of the stay and then sends the hotel their agreed allocation of a guest’s payment (that is, the hotel doesn’t write a commission check); a hotel still incurs a real cost for this business.

Below is a quick reference table with sample data to indicate declines in NOI in \$25,000 increments:

Net Operating Income (NOI)	Decline in NOI	Asset Value	Reduction in Asset Value
\$500,000	none	\$6,250,000	N/A
	-\$25,000	\$5,937,500	-\$312,500
	-\$50,000	\$5,625,000	-\$625,000
	-\$75,000	\$5,312,500	-\$937,500
	-\$100,000	\$5,000,000	-\$1,250,000

THE COMMERCIAL STRATEGY MODEL

The Evolution of the Commercial Strategy Model



Before a revenue management team (and/or system) applies filters for rates and inventory, the commercial team creates filters to decide which business is worth pursuing and how much should be spent to acquire that business. The commercial team evaluates all segments, all channels and assesses results by measuring profit contribution.

CONNECTING A HOTEL'S COMMERCIAL STRATEGY TO ASSET VALUE CALLS FOR HOTEL COMMERCIAL AND/OR OPERATIONS TEAMS TO BE CAPABLE OF CALCULATING POTENTIAL CHANGES IN ASSET VALUE BASED ON THE COMMERCIAL ACTIONS PLANNED.

Removing the Silos

The Commercial Strategy approach means applying a laser focus and a holistic lens on the essential tasks to deliver higher profit contribution for the owner's goal of increasing asset value. The teams cannot work in silos. The funds cannot be siloed. Whether they are on-property or above-property, the revenue, sales, and digital teams, along with operations, must function as one Commercial Strategy unit. This requires agreement on the plan to execute strategically and tactically against the best opportunities available, not just individually pursue "as much as they can" using the specialized levers available to their discipline. Hotels can easily spend too much money, or spend on the wrong things, if they don't take a holistic view of all opportunities available. When the team operates individually and focused on their own primary concern to get the highest topline RevPAR index (revenue manager), the most business transient or group room nights (group sales), or the most volume through the website (digital), they are not always organized to work together to make necessary tradeoff decisions nor do they have an incentive to move budget funds between revenue disciplines. For example, sales leaders have no reason to give up part of their budget to a digital team, nor would they have access to the data that indicates why shifting funds from sales to digital may be worthwhile. Likewise, today's digital teams may not be inclined to contribute funds for an additional sales resource nor would they have access to data that indicates when, why and where that decision would be a good one.

Additionally, legacy objectives are usually created for top line revenue growth; they are rarely designed with the owner's goal of increasing profit contribution to grow asset value. **Most leaders in the commercial disciplines have a general belief that if all departments achieve their individual revenue goals, it will result in achieving the owner's goal, but in today's dynamic, costly digital market, that is often not the case.** It's a new day. A successful commercial team has to consider cost of acquisition and control of access to the customer; acquisition as well as retention; and maintain an intentional strategy for the business segments they want to pursue. It's also critical the team understand which competitors currently have their target business segments and know which techniques they will deploy to acquire new business (digital, direct sales, or other). This is a new mindset for many hotels. Connecting a hotel's commercial strategy to asset value calls for hotel commercial and/or operations teams to be capable of calculating potential changes in asset value based on the commercial actions planned.

Intentional opportunity targets and spending; integrated execution

To operate with an integrated Commercial Strategy model, the team has to look at the total demand profile of the capturable market. For example, if a hotel identifies two viable opportunities, one to grow advance purchase segment through Brand.com and one to increase bookings through an OTA channel—which should they choose? A commercial team that includes revenue, sales, and digital marketing (with operations input) should approach this question together. Questions they might ask to assist in the decision: What funds are available for digital marketing through Brand.com or for OTA advertising? What, if any, additional discount or pricing changes are required to capture additional advance purchase bookings? It's also important the team avoids having blinders on and focusing only on one or two opportunities. They must also ask, are there months they should focus on group sales on weekends only and instead dial up on loyalty member and promotion rates through Brand.com during the week? Once these questions are answered and a decision is made together, in advance of activating any tacti-



cal plans, the hotel will be more efficient at surgically targeting the business they want to acquire. The team is less likely to over- or underspend trying to have each commercial discipline (e.g., Business Transient (BT) sales, Group sales, Digital, OTA, brand promotion) go after all business they can get in a market.

In a legacy framework, while there is a general awareness of what the other commercial leaders are doing, a commercial strategy takes it to another level. Historically, hotel teams may have been inclined to pursue the same business year after year, whether there is opportunity to grow or not, or whether there may be something more profitable to pursue. Further, the post-pandemic demand profiles are different in many markets so longstanding confidence in “knowing your home market” is now reasonably open for debate. It is a good time to leave legacy behavior behind and choose segments/channels based on the highest value to the hotel and to intentionally assign resources needed to convert the opportunities. The team has to decide this together and when they do, they are acting in the new Commercial Strategy model.

The Revenue Opportunity Model



Source: Kalibri Labs

Once the opportunities are identified, the commercial strategy team decides which of the commercial levers is needed to convert the selected demand. If all involved act on a singular agreed plan and are not operating in a silo, they won't pursue business independently that may be less profitable or utilize resources needed by other teams.



Using the Revenue Opportunity Model as a Guide

The commercial strategy team identifies the opportunities and then allocates the resources and assigns the tasks as determined by the current agreed targets. In the legacy model, each revenue discipline acts independently pursuing the business they identify in their own silo. Some members of the team may have been underresourced and some may have been overspending relative to the actual opportunities in the market. The commercial strategy approach requires the resources to be quantified and aligned with the value of the opportunities before any spend is committed, thereby ensuring the team agrees on limited resource allocation, and is efficient, and surgical as possible with spending.

The Essence of Commercial Strategy: Asking the Right Questions to Grow Profit Contribution

The purpose of commercial strategy is to streamline revenue generation efforts and be effective in capturing the highest profit contribution available with the least investment possible. To execute this successfully, **the commercial strategy team has to focus its limited resources on the highest value activities by surgically targeting opportunities based on the highest profit contribution.** To do that, the commercial strategy team starts with a plan that targets specific opportunities. This plan is based on achieving the highest gross margins (that is, top line revenue minus booking costs) before operational costs are incurred so there is more remaining as a contribution to profit. Spend on resources such as sales deployment (business transient or group), marketing/digital spending, digital merchandising, commissions planned for third party channels and brand or local/regional promotions are agreed upon that match up with the plan. The team can then execute on the plan and measure results based on contribution to profit, first, and top line revenue, second.

A Few Considerations

- 1) The actions should focus on real opportunities that exist, business known to be in the market that is going to competitors today; not strictly on what is easiest to do or what can be accomplished in any channel without regard for the full picture of market demand.
- 2) When costs are considered, travel agency commissions are real costs to a hotel, whether its online or traditional agencies; or for guests that pay now or pay later. It's a good reminder that *commissions should not be viewed as "a cost of doing business" that have to be passively accepted; they are a cost just like that of a sales salary or digital media spend or loyalty promotion.*
- 3) A hotel may decide to allocate funds to pay commissions (or for incremental digital; or sales resources), knowing that there is less available for other revenue levers/opportunities and that the commercial team has concluded the targeted business mix represents the most effective path to growing asset value.
- 4) When considering the cost of acquisition, improving retention/increasing the loyalty base can also bring down overall acquisition costs. That can mean spending slightly more in the short term in exchange for spending less over time; the hotel will have fewer new guests to bring in due to a larger base of recurring guests that cost less or spend more in subsequent stays. (see Loyalty and Lifetime Value on page 136))



A Hotel in the Southeast: Challenging Conventional Wisdom

A select service hotel in the Southeast has a very strong business transient (BT) sales effort and believed they could bring in an extra 1000 local corporate room nights, which would normally be considered “the right thing to do” and no one would question it. However, in evaluating the market post-pandemic, it was clear that there was more opportunity at higher profit margins in loyalty member rate and Advance Purchase for the same days of week in the next 6-9 months. Investing in digital media and improving the competitive position for merchandising Advance Purchase on the website appeared to be a better path for this hotel to grow asset value. Using the legacy mindset, the hotel would continue getting the BT business and it may seem counterintuitive to make this change, but the data proved it was the right decision if the objective of the hotel was to grow asset value. They recognized an opportunity of over \$350,000 that was possible to pursue that would contribute higher profit contribution when compared to the 1000 room nights from local corporate accounts.



There will always be a mix of segments and channels required to fill a hotel; few can fill entirely on direct business with only the highest profit margins. **The challenge to the hotel team is to operate with an intentional plan to achieve the most profitable mix based on what is available at any given time in the market that is realistic to capture for the subject hotel, referred to as a hotel’s “optimal business mix.”** It may often be easier for a hotel team to launch an expensive third party ad campaign, but this can run up the commission meter while subtracting from media funds for direct channels, and/or take inventory that could be sold at higher profit margins. The immediate gratification from improving top line revenue can be satisfying in the short term, but top line metrics don’t always deliver the longer-term asset value, which is the underlying objective of commercial strategy. There is also a consideration for making this profitable business sustainable with thought given to attracting a customer base that can be engaged for repeat business. It should be understood that “all revenue is not created equal” when it comes to targeting improved asset value for an owner. When considering any given market opportunity, it has to pass the filter of (1) proving its contribution to a mix that is best for the hotel’s profit margin and (2) that the business can be sustained over time. The answers to these questions are foundational to commercial strategy and should drive the tactical actions taken by the hotel or its above property support team:

- which segment/channel combinations comprise the optimal business mix for a hotel to pursue;
- in what months;
- on which days of the week,
- how much is the business worth
- which competitors are getting it now
- how much its worth spending to acquire it
- which business may have to be displaced to accommodate it;
- does it contribute to a base of business that will return to my hotel or a sister hotel; and
- can we get our on- or above-property teams queued up to execute against it?

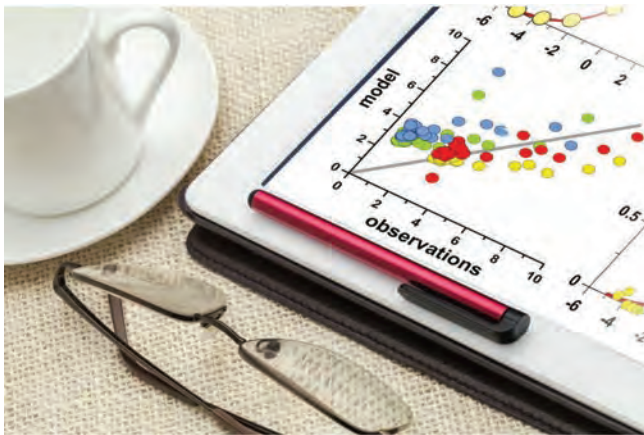


MOVING INTO THE COMMERCIAL STRATEGY MINDSET

It is always hard to find time for new tasks and shift from the comfort of executing tasks that are well known and have been performed very effectively for many years, upwards of 20+ years for many in the revenue management or sales discipline in today's operating hotels; somewhat less for digital professionals. It's not that it's a complete change, but it is a different mindset for many senior executives that were able to achieve success with longstanding objectives. If the market has changed and it has triggered a shift in owner priorities and objectives that leverage new data and technology, it warrants a fresh look. **Although the challenges of the digital market will persist and continue to evolve, the future is bright for many of the incumbents in revenue management, sales and digital disciplines; they are well equipped to invent the new discipline of commercial strategy and in so doing, to expand their skill sets and add even more value to an industry that is ripe for change.**

Revenue Management—An Historical Perspective

The discipline of revenue management (formerly known as yield management), started before there were fully built out computer systems for hospitality, so-called “Revenue Management Systems” (RMSs). Revenue managers (or before the title was accepted, it was usually reservation or front office managers) would conduct rate comparisons in a market, evaluate the pace with which new reservations were entering the hotels business base and compare that against the pace that a hotel thought others in the market were building out future dates. The early spreadsheet-based tools enabled patterns to be exposed indicating at what point increasing or decreasing rates resulted in a quickening or slowing of the pace of reservations for that given future date.



Supply and Demand

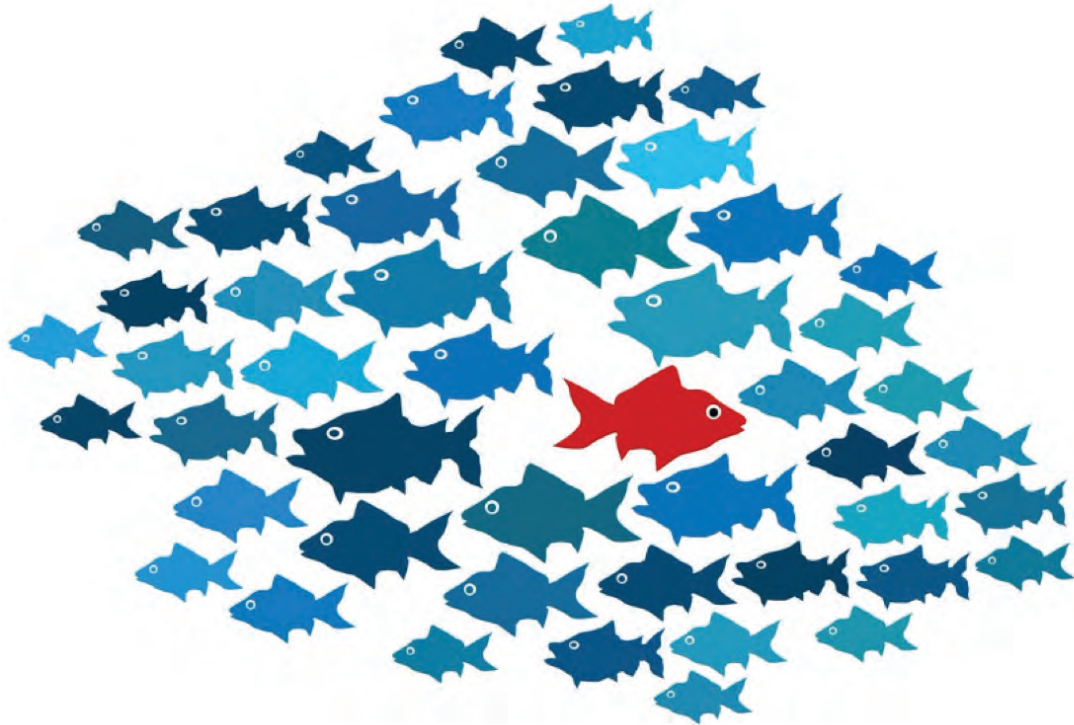
Based on the balance of supply and demand, the revenue managers had to establish a forecast which became the guide for pricing; an expectation of higher demand meant you could charge higher rates and lower demand meant you would have to lower rates to attract travelers in the market. Fortunately, much of the work is now done by algorithms with business rules that continuously update forecasts, serve up rates and automatically send those rates to the reservation system to offer in a call center, website or any other channel where a customer looks to book.

Outlier Management

In a kind of hangover from the legacy approach in the world of revenue management, there is persistent behavior in hotel teams to manually assess when rates or room night spikes (up or down) are outliers or have become a newly established pattern. In spite of highly functional Revenue Management Systems (RMS) that have improved dramatically over the last 10 years and are always getting better, faster, and more accurate in their forecasting and rate recommendations, many in hotels (and above-



property) continue to spend a lot of time manually scanning rate shop data, future reservation flow and pace reports to second-guess and override the RMS. Steeped in years of manual evaluation and historically less reliable revenue management systems, some hesitation still lingers in the revenue management community to “trust the system.” Hotels invest a lot of money in these RM systems and many management companies report that the GMs in their hotels can spend upwards of half of every weekly revenue meeting reviewing rate shop or market demand data, despite it no longer adding meaningful value when compared to the proficiency of the newer systems.



Leaving demand profile data to an RMS

Of course, an RMS will periodically make mistakes. It's a computer program and will not be correct 100% of the time. And those in the local market will certainly have knowledge based on “boots on the ground” experience that can be helpful for pricing judgements; this should be balanced with the reality that the pandemic altered known patterns in thousands of local markets. The rate shop data and some view on future pattern of bookings can be helpful in the RMS models, but to manually review this data can drain management time, and even worse can be misleading. At any given time, a hotel's on-the-books business will contain a majority of tentative bookings since cancellation policies are still somewhat flexible and lead times are still relatively short. Any review of this business means making an assessment of tentative bookings with upwards of 50% cancellation rates; without the use of advanced analytic capabilities to track patterns, most human judgment would be limited in making a determination on how many and which reservations will actually be consumed. Leaving this exercise to an advanced computer modeling system can prove to be more effective.

Many RMSs are powered in part by machine learning (ML) and when the hotel overrides the system output, it interferes with the system's ability to get “trained” on patterns in the market so that recommendations can improve over time. There is also a question of the time spent responding to the





Reconsider time spent on “edge cases” and how more value can be derived on other activities

‘edge cases’ rather than taking a longer view and executing against a strategy the team believes will deliver the improved profit contribution over time rather than pursuing the frequent weekly distractions that may ensue while interpreting outliers. Of course, there are good reasons to look hard at local demand data when there is an unusual event like natural disasters, a national sporting event like the Super Bowl or other infrequent or non-repeating anomalies in the market. On a routine basis, however, it’s a hard habit to break, but the complexity and dynamic nature of today’s digital market calls for an approach that is more strategic; one that is based on a plan that includes well thought out and intentional resource allocation against known quantified targets of opportunity. Those utilizing the RMS computer models are recognizing that those models are progressively improving and provide much of the needed guidance on when business may be truly changing versus dealing with outliers.

Commercial and Operations Leaders: The Highest and Best Use of Time Spent

Much of the time a hotel team spends overriding an RMS or delving into outliers could often be put to better use, one that could have a greater impact on asset value. In a time of digital disruption, the analytical resources of the commercial and senior operations team will be far more valuable when applied to commercial strategy when they can assist in (a) determining where and when to deploy sales; (b) when, against which segments and how much to spend on digital resources; and (c) how best to partner with a brand, CVB or other third-party partners.

This does not in any way mean that revenue managers will lead sales or digital efforts, only that some in this function may apply more of their time to provide the analytical support for the integrated commercial strategy team to decide how best to deploy the limited sales and marketing resources. Tactical execution for sales will remain with the sales team and for digital with the digital leaders. For those where commercial activity is managed entirely above-property, it is even more critical to use commercial strategy techniques since few will have extensive local knowledge and of course, the on-site general manager will be a critical collaborator in working with these teams.

If everyone does it, can you still have an advantage?

Some may argue that if all hotels start to practice this discipline, it is possible all efforts may be diluted in any given market. However, achieving higher profit margins will lead to more investment in the staff and the property creating a positive cycle for both guest experience and improved asset value for the owner. No doubt, there is still plenty of competitive energy expended in each market in attract-



MOST HOTELS DON'T INTENTIONALLY PLAN FOR A SPECIFIC BUSINESS MIX BASED ON ITS IMPACT ON ASSET VALUES; COMMERCIAL STRATEGY CALLS FOR ROUTINE USE OF THIS PRACTICE AND PROVIDES TOOLS TO MOVE IN THIS DIRECTION.

ing the consumer to one hotel over another. However, all hotels in a market can improve asset value concurrently because one hotel's gains when increasing direct business into a market are not at the expense of their competitor across the street. It means more hotels in the market are improving their respective products and making the market more attractive overall for travelers, with the objective of having more of the existing demand booked through direct, or higher profit margin channels for all hotels.

For most markets, demand is a zero-sum game in that there is little incremental business that can be attracted to a market. With the caveat that in some cases, markets such as beach destinations or convention markets can compete for specific tranches of demand, in the vast majority of cases, either your hotel gets the booking, or a competitor does. A lot of business can be shifted between direct and third-party channels with commercial strategy techniques that influence channel bias. Every channel has a cost, direct as well as third party, so a commercial team has to determine how much is possible to acquire given a hotel's location, brand, quality and other factors. One can argue that some third-party business could be considered incremental such as international business or some types of specialized groups. The optimal mix for a hotel will often contain both third-party and direct business. Getting that mix right is the challenge, and "right" means it delivers the highest profit contribution. Most hotels don't intentionally plan for a specific business mix based on its impact on asset values; commercial strategy calls for routine use of this practice and provides tools to move in this direction.

MANAGING FOR ASSET VALUE GROWTH: GETTING FLUENT IN THE LANGUAGE OF OWNERS

A renewed emphasis on improving asset values is the central guiding principle to have a healthy industry foundation. Recognizing that during a period of high supply growth in the industry since the 1980s, the owners and brands were closely aligned and managing to top line revenue was a reasonable way to measure success. The connection between top line revenue and profitability was strong and supply growth was booming. However, as the digital gatekeepers entered the market and imposed high costs on brands, owners and operators, each party is doing what is necessary to compete. Faced with competition from third party distribution platforms, hotel brands turned to an asset light model over the last ten years divesting of real estate assets to enhance their presence in the market and invest in their own digital platforms.

Supporting and increasing asset values is critical to ensure that investment in the hotel vertical continues. The hotel vertical can be an attractive place for real estate capital since hotels reset prices daily in response to market conditions unlike other real estate verticals such as commercial real estate with 5+ year leases and even multi-family housing with 12+ month leases. Hotel brands depend on owners to "add more flags" to achieve their unit growth objectives and expand their brand footprint so they have an interest in owners maintaining strong asset values for a successful transaction market and continued investment. Third party managers are hired for the express purpose of growing an owner's asset value. Ironically, with the tacit understanding that asset value is the foundational metric of the industry's success, the supporting brand and management company teams are not all fluent in the language of owners with respect to understanding how to calculate their core metric of asset value; there is a strong appetite in the ownership community for managers to enhance their skills in a way that supports asset value growth.





Essentially, every decision about a revenue target and the investments made to acquire and retain customers has to point clearly to growing asset value and cannot detract from it. Topline RevPAR index can contribute to asset value but at times can also undermine it. There are too many instances of hotels ‘buying’ RevPAR index with third-party bookings that do not add to the profit contribution to grow the NOI of the hotel. Strong and growing asset values are needed to maintain needed staffing levels and property quality which create a virtuous cycle of happy guests that return. A hotel’s commercial efforts have to align with this objective. If the heart of the hotel business is anchored in real estate investment, the soul may be hospitality and a great guest experience. Commercial strategy is where the two meet by building a healthy foundation of a profitable and sustainable business.

A True Story: Short Term vs. Long Term Perspective



A senior commercial leader from a major hotel brand told a story about presenting results to the company’s Board of Directors. The question posed was ‘are you doing everything you can to drive revenue premiums?’ The commercial leader said RevPAR Index could be increased with relative ease. When the board said ‘why aren’t you doing it now?’, the response was that it was quick and easy to drive revenues by paying 3rd parties more for preferred

placement, and this would boost RevPAR Index immediately, but that this was not recommended for the company. It would drive up acquisition costs in the short-term reducing profit contribution for the hotels, with a less sustainable base of business. Investing in direct channels through loyalty can expand a recurring base of business that will support the company over a longer term.



INDUSTRY PERSPECTIVE



Kelly Poling
Extended Stay America
Executive Vice President,
Chief Commercial and Brand Officer



How long have you been in or involved with the hotel or travel industry?

- >> I have spent almost 20 years in the industry. I first ran the corporate strategy, marketing, and then eCommerce teams at Choice Hotels. I then served as the CMO for WoodSpring Hotels; CCO of Karisma Hotels and Resorts; and now I am the Chief Commercial and Brand Officer for Extended Stay America.

How does the issue of digital distribution matter to hotel operations, marketing and/or asset management?

- >> Digital distribution obviously matters for the topline, however, rational channel economics is critical for overall hotel profitability as well.

What are the top 3 issues that you expect will have the greatest impact on customer acquisition for hotels in the next two-three years?

- 1 The blending of trip purpose—business and leisure.
- 2 The continued evolution of mobile—see conversion rates on mobile devices that rival those of desktop.
- 3 Increased personalization facilitated by Artificial Intelligence (AI)

What is the smartest move you have seen deployed for customer acquisition in the digital market?

- >> Amazon continues to lead the personalization trend; their personalization engine generates 35% of their revenue.

What is the smartest move your organization has made related to customer acquisition in the digital market?

- >> Deploying media mix modeling to validate spend effectiveness and mix, resulting in significantly increased Return on Ad Spend (ROAS).

What is the single biggest oversight or misstep that has led to a key learning related to customer acquisition in the last 2-3 years?

- >> Continued channel agnosticism—not using relative channel costs as a key input to commercial strategy which directly influences profitability.

What three things would you suggest about customer acquisition and digital distribution to have the greatest impact on unit level profit and asset valuation?

- >> 1) Focus on the most profitable direct digital revenue sources
- 2) Maximize the volume of guest reviews
- 3) Establish robust analytics competencies

What is the next thing that you predict will diminish in importance and gradually fade away that is currently a part of customer acquisition in the digital market?

- >> Last-click based attribution modeling. It will be replaced by a suite of inputs including media mix modeling, multi-touch attribution and experimentation. As cookies continue to decline in usage and utility, multi-layered measurement will be key.

Given many large new consumer facing companies who have signaled an interest in entering or selling hotel rooms online, how do you expect this to play out over the next 5 years?

- >> Good news: hospitality is a highly profitable industry; bad news: everyone has their hand in our pockets. Our responsibility is to not cede control of our pricing and inventory - and leverage these emerging channels rationally and strategically.

If you had a crystal ball, what emerging technologies or business models do you anticipate could be game changers, in the next 2-3 years?

- >> The introduction of new consumer platforms built on artificial intelligence (AI), presenting consumers with new and different options for finding and booking hotels. AI-powered search engines and related SEO tactics will need to change to leverage natural language processing to create more conversational content.

Additionally, we will see more seamlessly integrated technology platforms - allowing guest data to be better integrated—enabling us to move to easily translating guest data into actionable insights.





Commercial Strategy: Taking Action

BUILDING BLOCKS TO TAKE ACTION IN THE DIGITAL MARKET

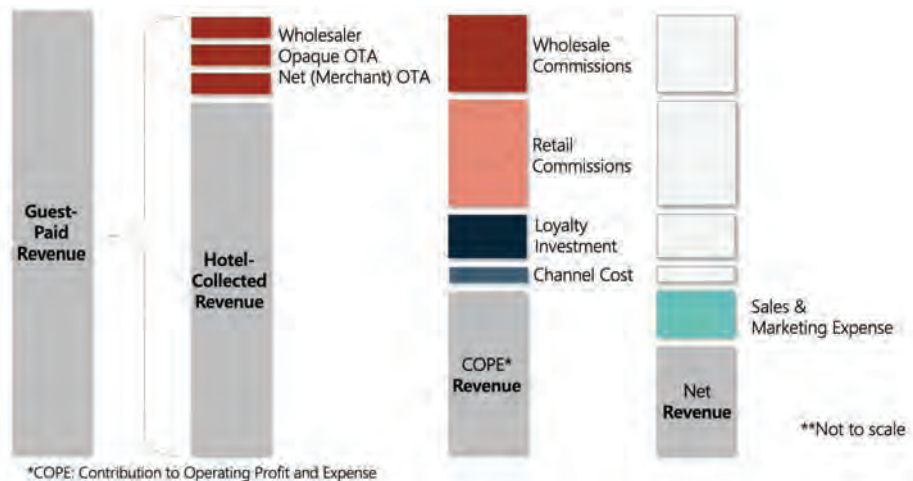
Basic Metrics

As an industry, we have spent decades using legacy *descriptive* data that is like a report card on performance. Anticipating what will happen and serving up what action a commercial strategist should take is more about *predictive* analytics to point to where the opportunity may be in the future and *prescriptive* analytics that points to action plans to achieve a hotel's objectives.

Evaluating a hotel's revenue generation and revenue capture performance based primarily on topline room revenue compared to a competitive set has served the industry fairly well in the past, but is no longer adequate. In fact, it can even be misleading. Now, we need to understand that revenue by segment and channel, and sometimes by length of stay and loyalty, as well as in the context of the cost to acquire that revenue. This will, in turn, drive many decisions around product, services, staffing and many of the sales and marketing levers used to acquire and retain a customer base.

Revenue Types

Customer Acquisition Costs are 15-25% of Guest-Paid Revenue



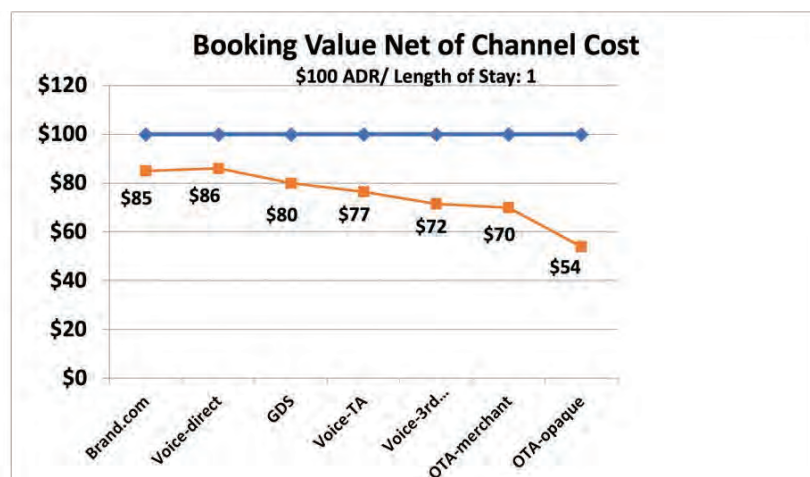
Not all revenue is equal. Understanding what guests pay and what a hotel retains after acquisition costs are removed is critical to determine a hotel's optimal business mix.



Distribution Costs and Benefits

There is a cost associated with each type of business. Few hotels can fill up with only the highest profit margin business. Understanding what is available and how much each opportunity costs is key to make weekly, monthly and quarterly judgments on effective deployment of resources.

Booking Value net of Channel Cost



Source: illustrative data from Kalibri Labs

A simple recap of the most commonly used channels indicates a wide range of net benefit for each. If a guest pays \$100 for a stay, this chart depicts an indicative range of what a hotel keeps after paying the booking costs for each channel. Actual costs will vary for each hotel.

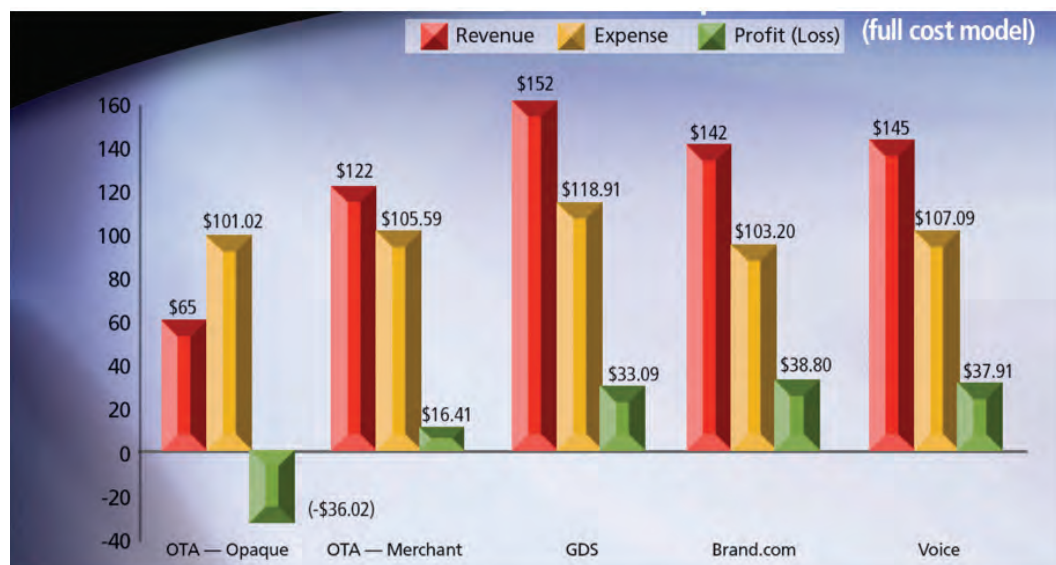
Flow through Analysis (how much cash "flows through" to profit)

The current costs of customer acquisition ranges from 15-25% of guest paid revenue. By contrast, in 2008 this metric was closer to 10-15% and 5-7% in 1998. Managing these costs requires tracking them, but acquisition costs are scattered on most hotel's profit and loss (P&L) statements. Some costs, such as wholesale commissions (including OTA margins and markups) don't appear at all. Commissions, loyalty costs, channel and transaction fees and sales and marketing expenses have been viewed by many as a 'cost of doing business' and largely as a fixed fund with incremental increases each year. Many owners are asking their management teams to view these sales and marketing budgets with fresh eyes and to align spending to a planned optimal business mix target. That means a hotel has a target for each type of business such as OTA, Brand.com and GDS as well as each rate category such as government, consortia and Rack/BAR.

The total spending pool is set based on segment and channel targets and is capped for cost control purposes. If a hotel oversteps an OTA target, for instance and that results in overspending the planned limit on commissions, that reduces the funds to pursue digital campaigns through Brand.com. This is a new opportunity for hotel operating and commercial teams to manage a meaningful cost category. It gives the commercial team a dual focus, meaning they are just as responsible for costs as they are for the revenue. In this digitally driven market, they not only have to source their demand, but they also must do it as efficiently as possible given what opportunity is available in their submarket. This shifts them from a top line focus to a profitability focus.



Upscale Full Service Flow-through by Channel



Source: Illustrative data based on Kalibri Labs U.S. industry averages

When revenue is evaluated for a group of hotels and full operating costs are allocated to each channel along with specific transaction costs such as commissions, channel/transaction fees and loyalty costs, it is clear that some business may appear to contribute more and some less to a hotel's profit. If some business does not provide enough residual revenue to "flow through" to the bottom line, it may not be worthwhile to take at all.

Upscale Full Service Flow-through Details by Channel

Upscale-Full Service	OTA Opaque	OTA Merchant	GDS	Brand.com	Voice
ADR	\$65	\$122	\$152	\$142	\$145
ALOS	1.7	1.9	2.4	2.2	2.2
Room revenue per booking	\$111	\$231	\$364	\$312	\$318
Ancillary net contrib. per booking	\$8.50	\$9.50	\$36.00	\$33.00	\$33.00
Reservation-related expenses* per booking	\$9.06	\$11.51	\$58.87	\$13.82	\$27.06
Channel-specific marketing per booking**	0	0	\$8.07	\$13.46	\$7.61
Other room expenses per booking	\$49.42	\$55.23	\$69.77	\$63.95	\$63.95
Undistributed expenses/booking	\$64.06	\$71.59	\$90.43	\$82.90	\$82.90
GOP per booking	-\$20.66	\$82.77	\$147.69	\$148.48	\$147.05
NOI per booking	-\$61.23	\$31.19	\$79.42	\$85.36	\$83.40
NOI per room night	-\$36.02	\$16.41	\$33.09	\$38.80	\$37.91

*commission, credit card and transaction fees — OTA credit card fees are NOT included although they are often charged on a dedicated use card in order to facilitate payment to hotels and incur +/- 2%

**marketing includes loyalty and online marketing expenses — loyalty fees were not applied to OTA bookings although they are often incurred

Source: Illustrative data based on Kalibri Labs U.S. industry averages

In this example, the OTA opaque rate actually detracts from the hotel's profit, while other channels provide varying levels of contribution to profit. This is indicative based on industry averages, but an actual hotel's specific costs will vary as these values vary widely by market.



THE HOTEL INDUSTRY HAS EVOLVED AND THE METRICS NEEDED FOR THE NEXT DECADE CALL FOR AN UNDERSTANDING OF THE BEST POTENTIAL PERFORMANCE FOR ANY GIVEN HOTEL AND AN ASSESSMENT OF THE OPPORTUNITY BY MARKET SEGMENT AND CHANNEL.

Benchmarks: Legacy and Next-Gen Comparisons for the Digital Market

The essence of benchmarking is to determine the best a hotel can perform and quantify a gap between a hotel's existing performance and its realistic "best" potential to enable operators to establish plans to improve its outcomes. "Best" going forward means the highest profit contribution (while being realistic) so a hotel is consistently striving for the highest asset value possible.

By comparing to others in its market, one can say that a subject hotel in similar circumstances performed better or worse than its competitors. The real question is whether you can find competitor hotels that are *truly* similar enough to be comparable. Far from a commoditized product, hotels have many variables that determine its performance. Each hotel has a mix of many customer segments that book through many distribution channels, all at a wide variety of price points. Hotels exist in different locations relative to desirable buildings or sites in a destination, some have a lot of meeting rooms and others have few, and hotels in the same market are built in different timeframes and are renovated on different time intervals. Some are associated with a brand, some have unique amenities like swimming pools, fitness centers, business facilities, or appealing food and beverage options. The key is to identify which hotels you compete with specifically for certain types of business and others for other types of business. This allows you to hone your competitive intelligence and performance benchmarking to the specific competitors guests are booking for that type of business if they are not booking your hotel.

The legacy benchmark for hotels since 1990 is the ADR, Occupancy, and RevPAR of a combined set of 5-6 competing hotels. In the early 1990s, the guideline for performance simply considered a hotel's share of the revenue or room night demand that was consumed in the total market relative to a hotel's number of rooms. In order to be considered equal in performance (same RevPAR), a 200-room hotel would be expected to get twice the number of rooms occupied as the 100-room hotel across the street. Markets in 1990 had fewer hotels and the nature of demand was simpler. That is, there were fewer customer segments and a more similar mix of this business across the existing hotels. The way business came into a hotel was largely walk-in/drive in/call-in; calling an 800 number; or call a travel agency to make a booking and the cost of customer acquisition for each hotel was 5-7% of guest paid revenue and that didn't change much for many years.

The hotel industry has evolved and the metrics needed for the next decade call for an understanding of the best potential performance for any given hotel and an assessment of the opportunity by market segment and channel. A 200-room hotel should not expect to get twice the corporate business or twice the social group business of a 100-room hotel across the street (sometimes called "fair share") only because it has twice the available rooms. Each hotel may have its own targets for the optimal mix of segments and channels including how much it is prepared to spend on customer acquisition which is now 15-25% of guest paid revenue. Factors like meeting space, loyalty program contribution and overall performance of each competitor by segment and channel relative to a subject hotel all have to be considered. Hotel markets are more complex in terms of types of demand and there is much higher density of hotel supply in many markets with a wide variety of hotel types. The simplistic benchmarking of the 1990s doesn't reflect the many dimensions a hotel has to consider in assessing its relative success. It is time to utilize benchmarks that are designed for the digital market of the next decade.



Next-gen Benchmarks

The concept of comparing a subject hotel to a fixed group of 5-6 competitors or even two groups of 5-6 competitors is unrealistic since one hotel may have over 15 market segments coming into a hotel through 5-6 different channels (multiply those for all the combinations) and may compete with a variety of hotels in each of those segments putting into question whether 5-6 hotels could possibly provide a reasonable basis for comparison. Most hotels compete to some degree with 20-25 hotels in its market; some may compete on 5-6 segments and some may compete only in 1-2 segments. And the competitors often differ by weekday versus weekend for each segment. Aside from the complexity in the market, the good news is that technology and data is more accessible and less costly than it was in the 1990s, so the ability to assess a hotel's real potential more accurately is easier. Add to this the merger and acquisition history in hotels which caused consolidation in many markets making it difficult to find enough unaffiliated competitors to make a viable comparison set so no hotel's performance can be singled out and identified.

The essence of benchmarking is to determine the best a hotel can be expected to perform and quantify a gap between a hotel's existing performance and its realistic potential. To accomplish this, it would be ideal for a subject hotel to consider multiple factors. New data and technology enables algorithms that quickly assess these factors and deliver to a hotel the realistic business they can capture and where/how and at what rate that business is coming into the market. This way a hotel is comparing its current performance to the "best it can achieve," or its optimal performance rather than an arithmetic average of 5-6 disparate hotels that likely overlap only with a small part of a subject hotel's customer segments.

- Which hotels are currently getting the business that my hotel can get by segment/channel and weekpart (considering lead time/arrival and departure patterns);
- How much business is realistically achievable due to the difference between the strength of my loyalty program (if applicable) and competitors' loyalty programs in the market?
- How much group business is achievable due to my meeting space as compared to other hotels in my market?
- What is the greatest market share any hotel has ever achieved by segment in my market?
- If long term contract business exists in my market, who is getting it and is it achievable or desirable for me to get any of it?
- How much am I paying to acquire my customers and how much would I expect to pay if I got some of the demand going to my competitors?
- What mix of business (by segment and channel) that is realistic for me to get will deliver the highest profit contribution to my hotel?

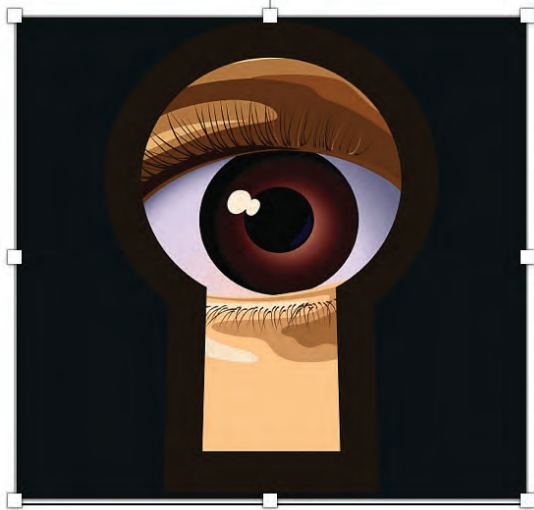
If a hotel's Optimal Business Mix reflected the best it could do in its own market on the basis of profit contribution (rather than top line revenue), then it would have a very useful benchmark. The targeted business mix would account for performance in 20-25 hotels by all segment and channel combinations and would account for differences by loyalty program, meeting space, length of stay patterns and other key variables in the market.

The subject hotel would have far more than a 'report card' of performance; it would have an itemized list of segment/channel targets to pursue for sales, digital, promotional and inventory-related actions. Concerns around brand or ownership consolidation causing invalid benchmarks would be moot because optimal business mix takes hundreds of variables into account in examining dozens of hotels in its market instead of three data points for 5-6 hotels. And most important, **achieving the optimal business mix would provide an assurance of improved asset value for the owner.**



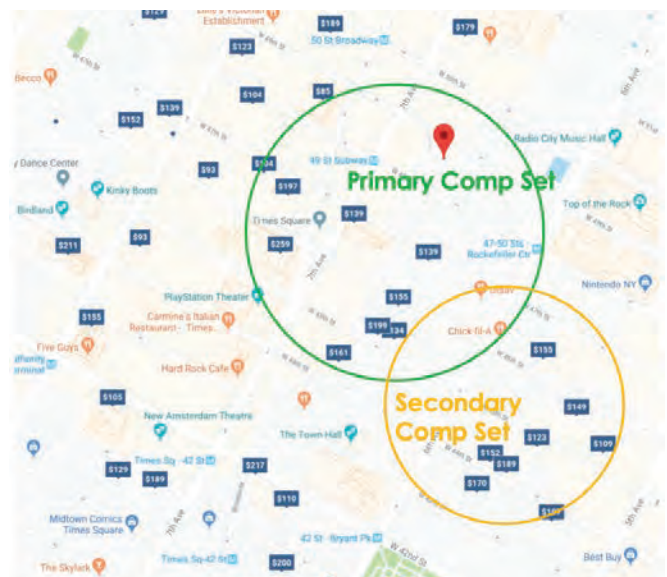
Competitive Sets

A Traditional Comp Set is Like Viewing Your Competition Through a Keyhole



After more than 30 years of establishing a primary or secondary competitive set, it is difficult for hoteliers to break that habit and imagine a hotel competing with multiple groups of 20-25 hotels and various combinations of customer segments, but that is closer to every hotel's reality and it is really not a new phenomenon. Most long-time hotel operators know they compete with many hotels for different segments, but the data was not readily available. With today's data and technology capabilities, it is possible to do so. If we narrow our view to a single group of 5-6 hotels or even two sets of 5-6 hotels, it prevents a commercial team from properly assessing the full complement of demand that is available to pursue and it may cause the team to chase the wrong opportunity because the real opportunity in the market for the most profitable segments is going to other hotels in the area that are not part of one of the legacy comp set(s).

The Legacy Approach to Comp Sets



The legacy approach to competitive sets is to set a primary or secondary set of hotels with which to compare any subject hotel.





A more realistic view of the market built on data from thousands of hotels indicates that any subject hotel competes with 20-25 hotels and those comp sets vary by segment and weekpart. This fact resonates with most who have been operating hotels for years, but the data would have to be available outside of the traditional comp sets in order for a hotel to take action on it.

"Optimize"—What Does it Mean?

The word 'optimize' is very often overused and misunderstood. To 'optimize' something, we need an objective function, and a set of constraints. We will then either maximize or minimize the objective function, subject to those constraints. For example, our objective function could simply be revenue, which we will try to maximize. The constraints could be a fixed amount of sales and marketing dollars, and a certain demand as a function of price. Our goal, in this example, would be to bring in the highest possible revenue, given the demand we face, and given that we have fixed budget to spend. We could choose to spend this on salespeople, commissions, paid placement, TV ads, or anything else.

Commercial Strategy falls apart without agreed-upon objectives. How many of you have heard someone say that their goal is to 'maximize revenues and profits'? One cannot, with the rarest

of exceptions, maximize both revenue and profit at the same time. You can maximize one or the other, but not both. An analogy would be trying to maximize ADR and occupancy at the same time. If your organization has a stated goal to maximize revenue and profit, you may want to clarify those objectives.

Not so long ago, a very common goal among sales & marketing professionals was to maximize revenue. But, as the disciplines of sales, marketing, revenue management, and distribution come together in the context of Commercial Strategy, we see that each of our revenue generation or revenue capture activities has explicit cost implications. For example, in our quest to drive revenue, we may incur commission or merchant mark up expenses or loyalty expenses, or sales expenses, or advertising expenses.



"Optimize"—What Does it Mean? continued

So why don't we in Commercial Strategy make decisions solely to maximize profits? There are two reasons for this: a) because we have somewhat limited impact on many expenses (for example, overtime pay in the housekeeping department of a hotel), and b) it's not clear that profit, at least in the short term, should be maximized. Well, what are we trying to maximize, if it's not revenue or profit? This is the crux of Commercial Strategy, and it will be defined differently for each organization, and possibly for each hotel. A good place to start is: maximize NET Revenue. NET Revenue here means the revenue we are bringing in, less the cost to bring that revenue in, as noted above. We encourage the reader to think through some examples of

decisions that maximize revenue vs decisions that maximize NET revenue.

In some cases, we may wish to make decisions that take longer term consumer behavior, or competitor behavior into account. For example, we may be willing to forgo a bit of NET Revenue, if a) there is a longer term benefit related to influencing customer behavior (for example, channel choice), or b) there is a strategic advantage (for example, in reducing the risk of a future price war). An example could be 'bias direct' efforts. These should be thought of as a tradeoff between short- and longer-term profits.

DEPLOYING COMMERCIAL STRATEGY

Optimal Business Mix

Based purely on a cost-per-channel assessment, a hotelier might think that he or she should fill their hotel only with bookings from Brand.com with its high profit margins, but most hotels fill up with a mixture of demand from all channels, some from direct channels and some third-party channels. Most hotels have traditionally managed segment and channel mix somewhat passively with many assuming that channel selection is in the hands of the consumer; however, for a hotel to improve its profit levels, it has to establish clear goals by segment and channel and pursue them with an intentional plan. And consumers' choice of the channel they use for information gathering or booking is heavily influenced by advertisers and suppliers of travel products.

It will not help a hotel to wish for a higher percentage of higher value business if the demand for it in its location is not there. However, if demand exists in profitable channels and the hotel is not poised to take advantage of it, there could be a lot of money left 'on the table.' This is not the desired scenario for any hotel owner or manager and it can be avoided with a proactive commercial strategy.

However, if demand is meager from high-profit channels, and the lower margin business spigot is running, a hotel should tap into this stream as long as it can justify that it makes some profit on every booking. Taking it on the top line with limited or no flow-through to the bottom line is not a sustainable method, even if it covers operating cash flow requirements in the short term.



DETERMINING AN OPTIMAL CHANNEL MIX IS NOT ABOUT CUTTING OUT THIRD PARTY BUSINESS AND TAKING IT ALL DIRECT; IT IS ABOUT GETTING THE BEST MIX OF BUSINESS THAT IS PROFITABLE.

It's All About the Costs...or actually, Isn't It Really All About the Profit Contribution?

Determining an optimal channel mix is not about cutting out third party business and taking it all direct; it is about getting the best mix of business that is profitable. Some third-party volume may prove more attractive than direct depending on the costs to acquire it. Naturally, channels vary in profitability, but it is not advisable to accept business through a channel that consistently contributes little to no profit. If a channel brings consumers that may return or spend more money in high profit ancillary revenue centers, or have longer stays, it may be worth paying more to acquire them the first time. This concept is sound as long as a hotel can prove that customers come back; that they stay longer reducing operational expenses; and/or that they spend enough money in revenue centers beyond the room rate to make it worthwhile to incur the high acquisition costs. "Hoping it will work out" is not a viable strategy.

It's a Zero Sum Game

The harsh reality of a mature lodging market makes it a daily challenge for most hotels to capture new demand and it is primarily accomplished by shifting business that is currently going to a competitor. Assessing the costs of each channel becomes crucial to building a hotel's business mix so that the hotel is filled, one day at a time, with the most profitable business available. Many revenue managers are accustomed to using price and inventory control as their primary levers. In a world of commercial strategy, there is a wider variety of techniques that can be deployed to attract the limited demand in a market including improved sales techniques in the call center, merchandising and digital marketing on the website, a merchandising-powered booking engine, and improved use of customer intelligence to enhance the guest experience at every touch point, through hotel-controlled channels and while the guest is on site. Knowing the channels to tap and understanding how to activate them will result in more successful outcomes.

Commercial strategy teams including operations leaders have to move from thinking they are managing revenue to managing profit. This is a change from the traditional approach to the pursuit of revenue where costs are taken as a given, often a second thought, if considered at all beyond the annual budget for sales personnel and some marketing. For all the effort spent in capturing limited demand, it is not beneficial if there is little to show for the work in terms of contribution to gross operating profit (GOP) or net operating income (NOI). Running promotions that deliver on the revenue, while it sounds encouraging on a top-line basis and can deliver the RevPAR index "buzz," can detract from financial and staff resources if this revenue does not yield enough residual profit to be worthwhile. The same is true if it diverts staff time and funds from cultivating other channels that may yield higher profit, even if the topline revenue is less. Hotel marketers will also want to favor channels bringing higher value customers that add to ancillary spend, have a longer length of stay and/or have the potential to repeat or refer additional business.



INDUSTRY PERSPECTIVE



Lisa Borrromeo Checchio

Wyndham Hotels & Resorts
EVP & Chief Marketing Officer



How long have you been in or involved with the hotel or travel industry?

- >> Before joining Wyndham in 2015, I spent 11 years at JetBlue Airways overseeing brand strategy and the execution of marketing programs, advertising, sponsorships, brand communications and design.

How does the issue of digital distribution matter to hotel operations, marketing and/or asset management?

- >> Digital distribution is not sometime in the future it is here, today: and guest acquisition, guest loyalty, and guest engagement require thoughtful choreography. No one channel can provide the best and most optimized way of revenue generation in hotels, balancing distribution through a variety of channels to optimize profitability is the dance we all must learn.

What are the top 3 issues that you expect will have the greatest impact on customer acquisition for hotels in the next two-three years? Guest acquisition is a constantly changing landscape with the biggest impacts coming from:

- 1 Awareness: Brand proliferation is catering to an increasingly segmented guest base, which is great for guests in that they have more choices but can lead to brand confusion. It's incumbent on brands to stay top of mind as we address our guests' changing priorities and needs. Customized acquisition strategies are needed, but budgets aren't infinite.
- 2 Fast-changing technology and convergence of distribution models: Technology has enabled distributors to quickly pivot business models, add new lines of business, blurring the lines between all of them. This creates a large burden on hotels to quickly analyze market conditions and pivot acquisition strategies accordingly.
- 3 Loyalty program competition: With distributors focusing on their own loyalty programs, hotels will have to prioritize on-property experiences to enhance and differentiate their loyalty value proposition. Understand what is important to loyal guests holds the key in ensuring lower acquisition costs and better distribution.

What three things would you suggest about customer acquisition and digital distribution to have the greatest impact on unit level profit and on asset valuation?

- >> Be nimble. Know your guest intimately and adapt with their changing expectations. By understanding what your guest cares about most, you can be very effective in selecting the right channels to balance cost of acquisition, reach, and control of your pricing.

See the forest through the trees. Individual KPIs only tell us part of the story. High conversion by itself may mask a new customer acquisition issue or high ADRs hide changing demographics that are not sustainable in the long run. A holistic approach in combining all KPIs to create a roadmap for the best distribution strategies will be most efficient in the long run

Don't be afraid to experiment. New technologies, new partners, new channels, and new ways to reach a guest. Learning from what works and just importantly what doesn't work in distribution are equally important.

What is the next thing that you predict will diminish in importance and gradually fade away that is currently a part of customer acquisition in the digital market?

- >> Broad customer segmentation as we know it today will fade away. Marketing to individual guest's preferences will become the norm—moving from a one-to-many model to a one-to-one.



How is commercial strategy org and process different?

- There is a planning layer requiring integrated decision making
 - so the team aligns on spending: sales, digital, direct/brand offers, 3rd party and revenue management
- One pool of funds...think of it as one budget
 - not separate ones for digital, sales, 3rd party commissions (even though accounting practice is not changed);
- Team members have a strategic and a tactical role;
 - plan spending across all revenue disciplines and then each member executes against their own area of specialty
- Revenue management function is broadened
 - to provide data & analysis for all revenue functions—"commercial analysis" but it also has a tactical function over pricing/inventory
- Digital may broaden to handle all marketing offers & media spending
 - Online marketing as well as third party and brand/loyalty
- Quantified opportunity drives proactive decisions
 - can't afford to chase every account, every offer, every type of business visible; have to be selective
- Competitors are viewed by rate category, not an aggregated comp set
 - so targeting opportunities can be more surgical and accurate—avoids barking up the wrong tree

Setting Objectives—Revenue and Costs

Commercial Strategy for Hotels

Setting Objectives and Boundaries

Strategy = Planning + Resource Allocation



- * Identify realistic opportunities
- * Quantify opportunities and rank them
- * Define pool of funds
- * Align funds with opportunities



The work of commercial strategy starts by identifying the opportunities in the market. In contrast to a legacy approach, the team will also consider the costs along with the revenue targets. Once the team knows what is available and understands the value of each opportunity, they can decide which ones to pursue and how much they are willing to pay to acquire the targeted business. It may not always be the highest value opportunities, but could be those that can be more readily converted. For example, a hotel with \$95,000 worth of government business may decide to make it a priority because they know the business is booked by 15 known accounts and agencies that are easy to contact. The team identified segments with opportunity worth 3-4 times as much, but the cost and lead time to acquire that business compared to the quick win they expected from the government opportunity put it at the top of their tactical hit list.

Once the target is set and its value known, the funds to acquire it can be established. Each hotel, with its owner and operating team, can align spending with the expected revenue so costs are controlled and appropriate for the benefit expected.

Frequently Asked Questions on Setting Objectives

As opportunities are identified, it can be easy to revert to old habits. Successful commercial teams should spend some of their planning time identifying old habits and tendencies they want to avoid in the future. The following table highlights some common questions or challenges teams face.

	Should I lower my rates? I need business	Can I influence demand?	Is there a meaningful difference in cost between reservations?	Are consumers more loyal to Brand.com or OTAs?	Will hotel brand apps influence decisions?
Traditional Wisdom	Lowering Rates will generate demand	I should take any business that comes to my door	I need business no matter the cost	Consumers prefer one booking channel vs. another	Brand apps don't change customer behavior
2023-2033 Approach	There are serious limits to cutting rates as a lever to stimulate demand—lowering rates won't bring enough incremental occupancy to compensate, and it can take years to bring rates back up to reasonable levels. Targeted discounts can be another path to consider.	While demand may be limited, now is not the time to be passive recipients of whatever demand may come your way. If funds are limited, tipping the spending balance toward higher profit contribution channels (e.g., Brand.com) can lead to more cash flowing through to the bottom line.	Cost differences between rate categories and channels can be significant. On average, hotels can pay \$12+ more per room night for OTA bookings compared to Loyalty member rates. A hotel's promotional spending decision should be driven by the revenue you keep, not the top line revenue.	Like past downturns, leisure transient business led recovery from the pandemic; however, this time, Loyalty member rates were running neck-in-neck with the return of OTA business and in some cases more attractive. Some consumers have strong preferences but many are channel agnostic; incentives to use specific channels can be effective as evidenced by the Book Direct campaigns launched in 2016-2019.	There are early indications there may be a potential bias amongst consumers for booking direct in order to take advantage of the use of mobile apps. There is a high interest in mobile check in, keyless entry and other expanding functionality offered in brand apps.



INDUSTRY PERSPECTIVE



Steven Nicholas
Noble Investment Group
Managing Principal



How long have you been in or involved with the hotel or travel industry?

>> I have been in hotel industry my whole life. My family had small hotels in a ski resort area in upstate NY and some restaurants and bars in the New York City area. Since then, have worked in hospitality with Noble investment group for more than 20 years.

How does the issue of digital distribution matter to hotel operations, marketing and/or asset management?

>> Digital distribution is crucial to a hotel's marketing, operations, and asset management workflow in today's business setting. The digital eco system has dramatically transformed the way hoteliers, find, interact, and keep their customers as they distribute their inventory.

What are the top 3 issues that you expect will have the greatest impact on customer acquisition for hotels in the next two-three years?

- 1 Personalization and Customization
- 2 The use of artificial intelligence, chatbots, and mobile apps
- 3 Sustainability for customers looking for environmentally responsible accommodations

What is the smartest move you have seen deployed for customer acquisition in the digital market?

>> Artificial Intelligence (AI) and Machine learning to enhance customer engagement through chatbot experience and optimizing pricing strategies by the major brands.

What is the smartest move your organization has made related to customer acquisition in the digital market?

>> Building up our business intelligence capabilities through cross-pollinated data sources for visibility into each market and street corner, both historically and in the future.

What is the single biggest oversight or misstep you have witnessed in the last 2-3 years?

>> I see many groups not having the right talent in their organization and rely only on third party consultants. You need some level of talent in the organization to ensure alignment of resources and goals.

What three things would you suggest to a hotel general manager, owner or asset manager to have the greatest impact on unit level profit and on asset valuation?

>> Understand your data
Dedicate time to work with experts
Use your resources

What is the next thing that you predict will diminish in importance and gradually fade away that is currently a part of customer acquisition in the digital market?

>> Traditional SEO tactics, such as a hyperfocus on on-page keyword optimization.
Generic content will be replaced by interactive, video, and personalized messaging.

Given many large new consumer facing companies who have signaled an interest in entering or selling hotel rooms online, how do you expect this to play out over the next 5 years?

>> Hotel brands need to remain focused on customer needs while enabling owners/operators to meet these needs at scale and aligned with their business objectives. Ownership groups need to ensure that they are aligning with groups that maximize their profitability, not continually dilute it.

If you had a crystal ball, what emerging technologies or business models do you anticipate could be game changers in the next 2-3 years?

>> Artificial intelligence (AI) to automate workflows and enhance deliverables
Auto-driving vehicles in connection with electronic vehicles will change people's travel habits.
Blockchain technology and Financial Technology (fintech)--Blockchain can provide a more secure and transparent booking process. Fintech has the potential to enhance the booking process and provide ancillary revenue opportunities.



Commercial Strategy Activation: Three Considerations

There are three primary considerations for operating an effective commercial strategy team.

1 **Org structure:** view the team as **one unit addressing all aspects of commercial strategy.**

Legacy sales, revenue management and digital teams can inadvertently under- or overspend because they could each reasonably claim they were effective when only considering revenue and cost of their own channels in isolation. Decisions like maintaining head counts in sales were rarely considered in light of needs to increase spending in digital media or promotions. A commercial strategy team is able to integrate revenue generation in light of spending decisions. Automated revenue management system (RMS) guidance that is often second-guessed by the revenue leaders may have to be trusted more so limited staff has bandwidth to apply analytical skills to tradeoff decisions for sales staff deployment, group pricing and spending decisions around media or brand promotions. With 60-70% of customer acquisition funds spent on sales and marketing initiatives, this shift could yield higher returns for a hotel or group of hotels and leverage a critical skill set that has been typically siloed around pricing issues.

2 **Budget:** Even when following USALI guidelines, be transparent about the spending limits with the entire team as though there is one pool of funds, one budget—not always shown as separated into sales, digital, third-party commission or revenue management budgets. Take the top line revenue minus costs of acquisition and be sure everyone knows the net revenue number. That is a hotel's revenue 'flow through' or the cash that contributes to debt, fixed expenses and ultimately a hotel's profit. It's all that really matters in today's cash-sensitive hotel operation. **Everyone has to recognize that commissions are a manageable expense, not a 'cost of doing business' and if you overspend with third parties, you may not have the needed funds for brand or internal promotions that can yield higher profit margins.** Operational costs will be largely the same for all room nights, but acquisition costs can vary widely. When a decision has to be made about adding sales payroll or spending on digital media or participating in a brand promotion, it has to be evaluated in the context of the overall net revenue target. This cannot be done in a silo. The commercial team has to examine all opportunities and see how it impacts the hotel's net revenue objective.

3 **Performance Assessment:** Goals and objectives have to account for both revenue and cost for all teams. Gone are the days when hitting a top line RevPAR number or sales target is enough. Everyone has to take responsibility for achieving revenue that delivers the highest "flow through" to profit, whether it is GOP or NOI. **Management has to understand that the way it acquires revenue affects asset value.** Looking at COPE RevPAR index (or RevPAR net of acquisition costs) and optimal business mix may be valuable additions to the assessment process. Considering a wider range of comp sets by rate category will allow the hotel to target the best opportunities and not allow the team to miss those that exist outside of the traditional comp set(s).



Commercial Strategy Activation: Allocating Spending

Most owners prefer that operating teams closely manage funds used for customer acquisition. The 15-25% of guest paid revenue that is spent for revenue generation can be best deployed when budgets and teams are working with one pool of funds. Skills will certainly be differentiated; this isn't about having salespeople become revenue management experts or revenue managers running digital, but **it comes down to decisions about resource allocation and tradeoffs between sales, digital, and promotional decisions.** These decisions can be driven by data and technology, so the limited staff is freed up to do what they do best—execute against the plan.

Questions to develop tactical plans

- How many sales staff should be deployed for each type of business and/or geography?
Should they focus on specific timeframes e.g. months, weeks or weekend vs. weekday?
- If above property, how many sales resources for each hotel for each type of business? Is the team agile and nimble to shift deployment quickly when needed based on the best opportunities available?
- how much to spend overall in digital? Will this require a reduction in sales staffing or brand promotional spending?
- If tapping digital channels, which rate categories during what time periods?
Is this the highest and best use of funds to get the targeted business?
- Which digital channels yield the best returns for the targeted rate categories? if a brand is involved, how can a hotel or market effort get additional leverage by joining with the brand?
- How should funds be allocated between OTA promotions vs. loyalty member or advance purchase promotions?
- How is the OTA channel being monitored to be sure it's not cannibalizing direct Rack/BAR or loyalty member rate business? Who is doing this and how often?
- Which brand promotions are worth pursuing? Will this spending still allow for the needed local sales and digital spending? If needed, are there tradeoffs that can be made by staggering deployment of digital and promotional spending, so they aren't during the same weeks/months?

Take Away

One team, one budget and improved commercial analysis can yield positive results even when spending and staffing is significantly reduced. The use of data and technology will be more important than ever to drive smarter decisions. No one can do what they did pre-COVID with less resources, but they can still succeed and thrive. It calls for cross-discipline decisions made by an integrated commercial organization, and limited resources being deployed with careful thought, continual monitoring and a focus on profit contribution and growing an owner's asset value.



IT IS NOT ENOUGH TO KNOW WHAT IS IN THE MARKET ANYMORE AND THINK A HOTEL SHOULD GO AFTER ALL OF IT; ITS CURATING THAT BUSINESS BY DECIDING WHAT TO PURSUE AND EVEN MORE IMPORTANT, WHAT TO LEAVE BEHIND

More Dimensions: Unpacking Costs and Demand Profiles

Beyond transactional: investment vs. expenditure

The mindset that acquiring business is purely transactional to fill up a particular day or a week can be expanded to recognize that some initiatives have to be considered to be “investments” rather than strictly a simple cost-benefit calculation. A good example of this is decisionmaking around growing loyalty contribution rather than thinking about just filling tomorrow’s rooms. If the actions you take can deliver multiple stays or longer lengths of stay, the funding for them may be different than if you are strictly limiting expenditures to deliver an immediate and direct revenue benefit. It is important to know the actual contribution for any business acquired but considering its benefit over time may take further examination.

New antenna needed to pick up the signals

The commercial team has to be nimble in picking up “signals” that give an indication of which types of business are trending upward and which may be moving downward. In the post-pandemic market, the line between commercial and leisure has blurred and it may have a material impact on both pricing and the investment in acquisition initiatives. In the 30 years before the pandemic, having a fixed staffing plan and marketing plan that was relatively similar year over year was a normal way to sell in a hotel. Each hotel would decide how many corporate (BT) sales staff, how many sales people to pursue group and then choose from a fairly limited list of promotions available from a brand or destination marketing organization. Branded hotels depended much more on a top-down model where national campaigns or centralized sales teams fed the regions and markets in the field. This model is being challenged by more variability month-to-month and season-to-season.

We are operating in a world where corporate isn’t just commercial and leisure is not just leisure and they may all book different segments and book through many channels. Group may come in a variety of ways, in a block and individually; direct and through third parties (some group specialists and some may even come through non-traditional channels like OTAs). With so much shifting and changing, the commercial teams need better antennas to pick up signals when trends are shifting and be prepared for new seasonal shifts, since the only persistent state is one that is frequently changing. The revenue management function would benefit from an expanded analytical toolkit to inform the rest of the commercial team about the market patterns as they happen; this isn’t so much a day-to-day focus on jumping around with decisions for next Tuesday or the following Friday, but rather a longer time horizon where monthly and quarterly initiatives result in a more sustainable base of business. It is not enough to know what is in the market anymore and think a hotel should go after all of it; its curating that business by deciding what to pursue and even more important, what to leave behind. These decisions are filtered by shaping a business mix that accounts for cost of acquisition and results in higher asset values.



Commercial Strategy Organizational Framework

Commercial Strategy for Hotels



Does commercial strategy require a new organizational structure?

Adopting commercial strategy does not require a change in the organizational structure, however, the members of the commercial team may likely expand their roles in order to participate in the strategic decisions around planning and allocating resources.

Within a commercial strategy framework, hotel organizations have the usual tactical functions to oversee the daily activities related to business transient and group sales; pricing/inventory management; digital; promotional and OTA or other third-party marketing. The difference is there is a set of tasks that guide those tactical actions related to planning and resource allocation. Before any of the tactical teams get activated, the team collectively has a commercial strategy plan to decide what the top targets are and how much should be spent to convert those opportunities. Rather than make decisions day-to-day based on what is seen in the market for the upcoming days or next couple of weeks, there is a longer time horizon for a plan and a sustained commitment to execution over a 1-3 month or longer timeframe, depending on the lead times in the market. Having a pre-determined revenue plan decided by the full commercial team and a pre-determined spending plan, all before execution is undertaken is a meaningful difference in approach.

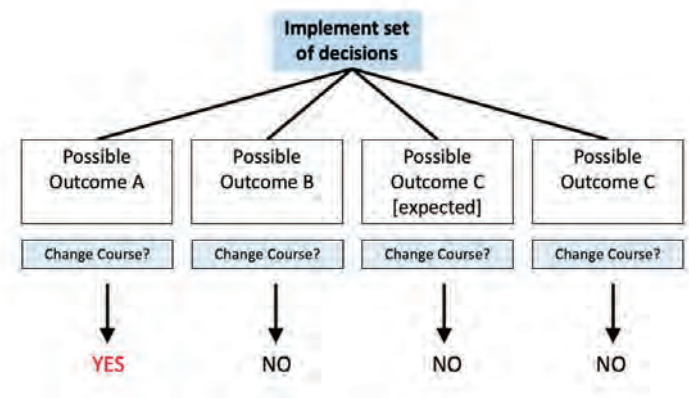


Change Management: Real Time Learning

Throughout this guide, we've been discussing making decisions in the context of Commercial Strategy. We make these decisions with expectations of certain outcomes, for example, maximizing NET revenue. These decisions are (presumably) based on some analytics that predict what will happen (hence the name 'predictive analytics'). But what happens when we don't see those outcomes? For example, we may spend \$x to increase loyalty sign-ups, with the expectation that our plan will work, but learn that we spent the \$ but didn't get the signups. Now what?

In executing a sound commercial strategy, we need the ability, and the inclination, to change course as needed. In fact, the strategy should include criteria for changing course. As the saying goes, "if you don't have a Plan B, you don't have a Plan A". This requires some discipline up front. We've done our analysis, thought through the implications of our decision (or set of decisions). Before actually executing, we need a contingency plan. We believe that path X will produce outcome Y, but we should know in advance

under what circumstances we will revisit path X. This contingency plan can be as detailed as we're comfortable with (e.g., could be 2 scenarios or 100 scenarios). The key is to know up-front what we will do under several scenarios. Of course, there is the possibility of a scenario that no one predicted, as the recent pandemic makes painfully obvious. But that does not relieve us from the obligation to plan for variations in possible outcomes, and know what we will do when those outcomes become reality.



Commercial Strategy Team—Planning and Resource Allocation



Monthly review of annual plan with focus on a rolling 90 days

* Sales leader

- Recommends group, BT and leisure sales targets—direct and 3rd party; proposes deployment of staff by segment/geography aligned with quantified opportunities; participates in decisions around digital and other marketing plans along with pricing/inventory decisions.

* Digital marketing leader

- Recommends brand, direct, 3rd party and other online targets and proposes deployment of media funds—how much and against which opportunities; participates in decisions around sales deployment along with overall pricing/inventory decisions.

* Commercial analysis leader

- Synthesizes data and develops key insights in cooperation with commercial discipline leaders and participates in decisions around sales, digital and other marketing/promotional plans with recommendations on broad-based pricing and inventory decisions



Changes in Traditional Roles: Focus on Revenue Management

While the daily work continues for each of the teams executing a plan on behalf of a hotel, the overlay of a planning function does influence how time is spent that may differ from the way it has been done historically. The revenue management function has typically undertaken the core analytical tasks for a commercial team. This is unlikely to change, but the shift to a commercial strategy approach may call for an expansion on the types of analysis beyond the revenue management's typical forecasting and analysis to inform pricing and inventory decisions. While all commercial team members may decide together how to execute a plan, there is a need for commercial analytics as inputs to those decisions that may include:

- tradeoff analyses to establish levels of investment in digital and sales efforts
- analysis of sales efficiency to assess if the investments made were effective and to determine if/how they can be refined;
- analysis of digital efficiency to assess investment levels;
- assessment of third party/OTA and brand initiatives to determine if the results met the commercial strategy objectives.

When managing the “strategy” of Commercial Strategy, legacy revenue discipline leaders may take on expanded planning functions. The sales and digital leaders may recommend how initiatives contribute to the overall targets for the hotel and propose deployment of their own direct reporting teams, but they will also weigh in on the overall decisions of their counterparts. The commercial analysis function may be executed by the revenue leader if appropriate to take on this broader set of analyses, in addition to continually assessing the optimal mix and the changes in market share for targeted opportunities. Essentially, the role of revenue management may be due for some expansion in conjunction with other members of the commercial team.

Tactical Execution—Deploy commercial strategy



Once the commercial strategy is agreed by the team, each of the leaders execute the tactical plans that were decided by the group and track their results. Revenue managers may take on more of the commercial analysis as an extension of their previous analytical roles.



INDUSTRY PERSPECTIVE



Joe Pettigrew
Starwood Capital Group
Chief Commercial Officer,
Hotel Asset Management



Rob Tanenbaum
Managing Director,
Head of U.S.
Hotel Asset Management

How long have you been in or involved with the hotel or travel industry?

- >> Joe has been in the hotel industry for 18 years across all disciplines and spent 10 of those years specializing in commercial, including e-commerce and distribution. Rob's entering his 32nd year in the hotel industry having worked hotel operations, real estate consulting, and hotel asset management.

Thinking about distribution and the digital marketplace and how it fits into the overall hotel landscape...how does the issue of digital distribution matter to hotel operations, marketing and/or asset management?

- >> The digital marketplace directly impacts the hotel's overall visibility, positioning, and reputation. It is the start of a guest journey, and therefore, is a critical component of the overall commercial strategy. The opportunity of creating a vision board through digital marketing allows for the de-commoditization of an asset.

What are the top 3 issues that you expect will have the greatest impact on customer acquisition for hotels in the next two-three years?

1 Increasing awareness of digital privacy and the death of 3rd party cookies will drive all channels to focus heavily on obtaining first-party data. That means more aggressive brand and OTA loyalty programs and more partnerships between brands, such as co-branded credit cards for points and status.

2 The rise of Financial Technology (fintech) products that replace the traditional revenue management levers, such as non-refundable rates and dynamic pricing. These companies will take on the risk of cancellations and increasing rates for a small fee to the end consumers.

3 The rise in popularity of remote and hybrid working will result in fewer bookings on traditional B2B channels and more bookings on brand and B2C channels, as more people can travel to different places while working remotely.

What is the smartest move you have seen deployed for customer acquisition in the digital market (by someone other than your own organization)?

- >> We like what TWA Hotel is doing with its distribution strategy. Their JFK location and unique positioning allow them to focus on a direct-only strategy, while their CRM campaigns are extremely creative with instantly recognizable personas and offer content that goes beyond just their hotel rooms. Their approach connects emotionally with the nostalgia of the aviation industry.

What is the smartest move your organization has made related to customer acquisition in the digital market?

- >> Formation of a single commercial team where revenue management, distribution, digital marketing, and sales all work together on a day-to-day basis to craft both evergreen and burst digital campaigns. When these teams work in silos, you can easily deploy costly campaigns when the hotel is full to clients whose negotiated rates are closed out.

What is the single biggest oversight or misstep that has led to a key learning related to customer acquisition you have witnessed (in your own organization or others in hospitality) in the last 2-3 years?

- >> We all understand the benefit of driving direct bookings at our hotels, such as offering elevated guest service and driving loyalty at a lower cost of sale. However, we have also seen that too much focus on driving direct bookings can result in a lower Net RevPAR, due to the management team deliberately restricting all 3rd party distribution. The success of a channel management strategy should always be measured in Net RevPAR, not in direct booking % or commission % so hotels pursue the right mix of business at any given time.

Besides legacy pricing and revenue management, what three things would you suggest to a hotel general manager, owner or asset manager about customer acquisition and digital distribution that they can explore to have the greatest impact on unit level profit and by extension, on asset valuation?

- >> Reworking the property website to appropriately define the unique property attributes through both written and visual content. Break down the guest reviews by channel and country of origin and focus on delivering the service that is most important to them. Having authentic responses to on-line guest reviews.

>> Continued



What is the next thing that you predict will diminish in importance and gradually fade away that is currently a part of customer acquisition in the digital market?

- >> Generative conversational Artificial Intelligence (AI) like ChatGPT has the potential to revolutionize all industries by replacing many human interactions. For hotels, this could replace the already fading travel agents, reservation agents, and other acquisition channels that still rely on human interaction offering superior customer experience with consistent service and zero wait time. Without travel agents, traditional advertisements like GDS marketing will also diminish as guests start to either book directly with the AI or use self-booking tools, the popularity of which is already on a steep incline.

Given many large new consumer facing companies who have signaled an interest in entering or more active involvement in selling hotel rooms online, how do you expect this to play out over the next 5 years and briefly, how will this affect hotel brands? hotel owners/operators? legacy distributors such as OTAs?

- >> We predict the new entrants will partner with the existing distributors, such as the OTAs, as the primary path to getting into this space. The OTAs are already becoming more like the bed banks with a heavy focus on both payments and related fintech products. The result will be a consolidation for the hotels in terms of connected distribution partners, but more choices for the consumers as more channels enter the travel space using the inventory from the OTAs.

If you had a crystal ball, what emerging technologies or business models do you anticipate could be game changers, or at least have the greatest effect on the hotel distribution landscape in the next 2-3 years? And briefly, how do you see them playing out?

- >> Generative Artificial Intelligence (AI) like ChatGPT to improve consumer experience and reduce the need for some third parties in the sales path.



CASE STUDIES

Two case studies will be illustrated below that are anonymized but based on a real group of hotels with actual results.

Case Study I: Hibiscus Hotel–Tradeoff Analysis

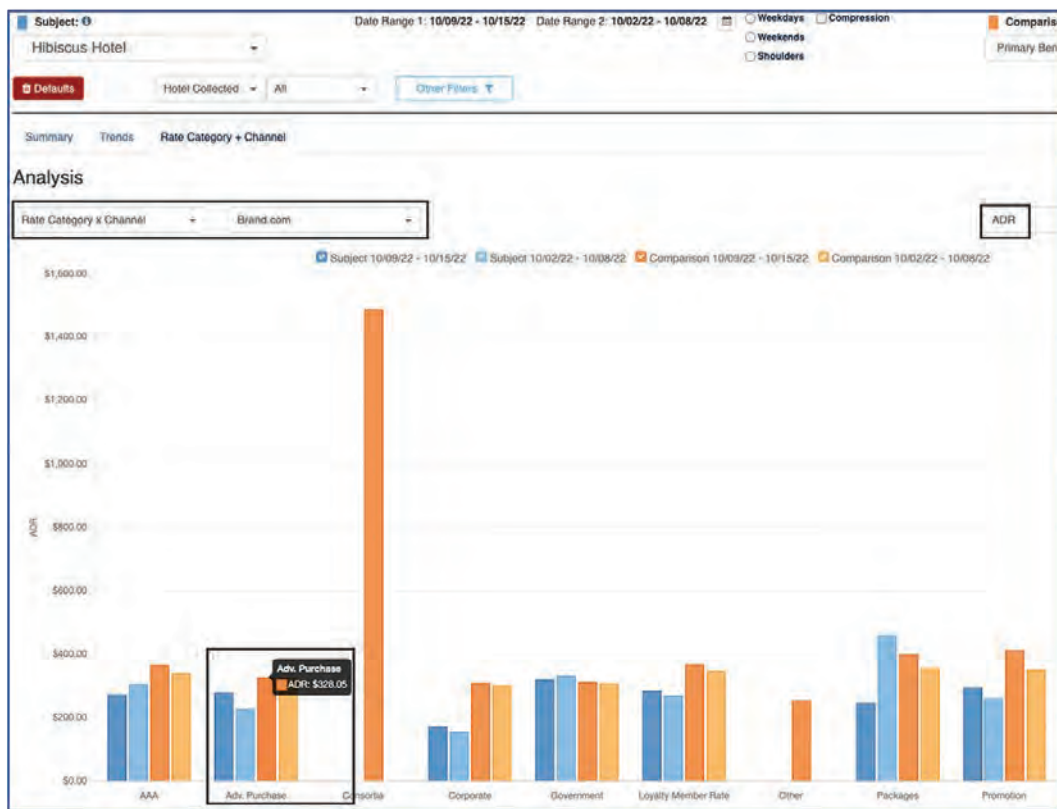
Once an opportunity was proactively identified, the Commercial Strategy team identified and understood the core considerations for the opportunity. They looked at these data points, among others:

- Average booking lead time
- Channel(s) being used to book
- Potential ancillary revenue benefit (i.e., Group with associated catering and meeting spend)
- Current business pace for the selected period
- Spending guidelines
- Resources available to pursue the opportunity

Next, the Commercial Strategy team identified which leader would act on the opportunity and when, based on their tactical planning. For this example, the Commercial Strategy team had a Commercial Analysis (previously Revenue) Leader, Sales Leader, and Digital Marketing Leader.

Identified Opportunity: Advance Purchase

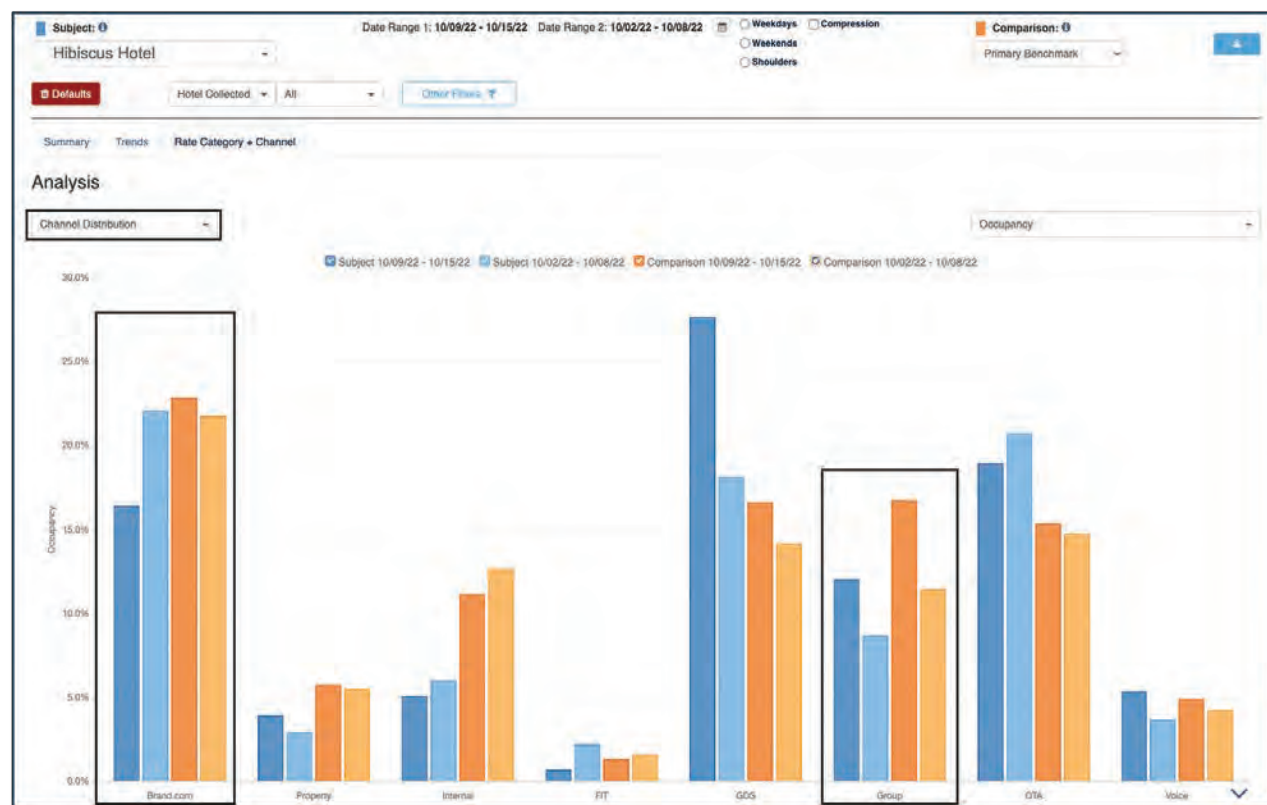
The commercial analysis leader, Ruth, reviewed weekly performance and noticed an unexpected decline in RevPAR index for her hotel. She wanted to understand the channels, type of rate segments, and booking lead time periods that the hotel was missing out on from a room night and rate perspective.



In this view, the Hibiscus hotel (represented by blue) had experienced a decline week-over-week through Brand.com and Group. In both cases, the selected competitive set (represented by orange) had experienced growth week-over-week.



Ruth decided to dig into the decline in Brand.com further. She looked at the rate categories booking through Brand.com over the last week and recognized that her hotel experienced a significant decline in Loyalty Member Rate through Brand.com, as well as a decline in Advance Purchase. Further, the comp set had growth in Advance Purchase via Brand.com.

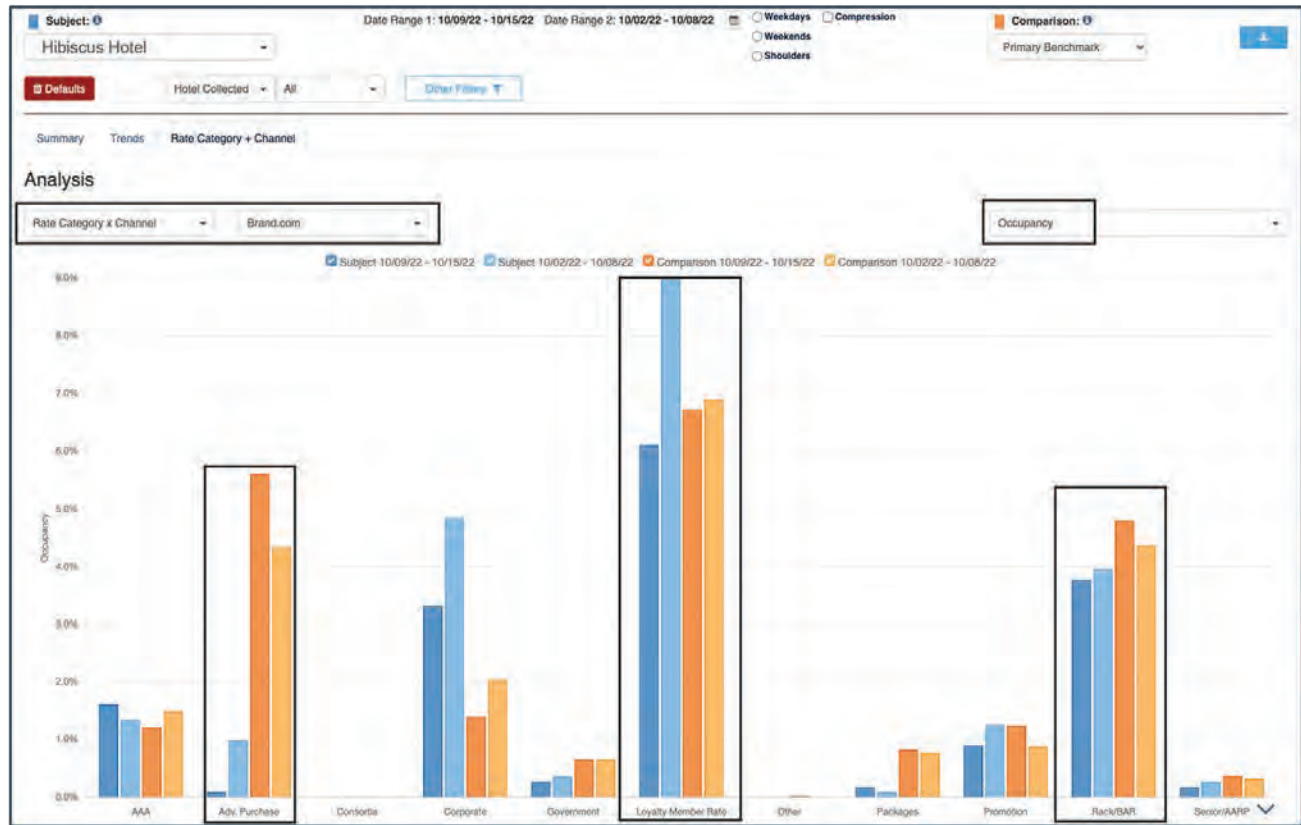


Narrowing the channel view down to Brand.com highlights Advance Purchase (left) as a high priority opportunity.

Ruth knew from prior discussions that her team was reluctant to pursue additional opportunities for Advance Purchase because they believe it required additional discounting of the rate. She decided to look at the overall rate guests are paying in the comp set for Advance Purchase bookings. She was surprised to discover that the rate being booked for Advance Purchase at competitor hotels was almost \$50 more than her hotel in the prior week.



CASE STUDY



The comp set's Advance Purchase rate via Brand.com is \$328 vs. the hotel's \$280.

Ruth knew that she needed to bring this opportunity up at the next Commercial Strategy meeting and put together the opportunity details that helped the team make their tactical action plan. She included the following details:

- Rate Category
- Channel
- Value of Opportunity
- Timeframe
- Competitors getting this specific types of business
- Primary Booking Lead Time Window

Other factors that might be considered for different types of opportunity are average length of stay, current business mix, and expected demand generators over the identified time.



Digital Guidance

Digital Guidance	Opportunity Details
Rate Category	Advance Purchase
Channel	Brand.com
Value of Opportunity	\$173,000 booking into competitors
Timeframe	Month of October
Competitors getting this business	Aloft Downtown, Element City Center, Courtyard Downtown, The Alexandra
Primary Booking Window	15+ days
Feeder Markets	Washington DC, Philadelphia, NYC, Boston, Chicago

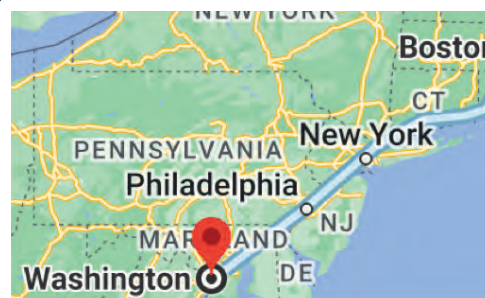
This is an example of how a Commercial Strategy team can put together the details of an opportunity for review during a commercial strategy planning meeting. This case calls for digital execution so the guidance will be taken by the digital leader.

In this case study, the commercial analysis leader Ruth had already identified Advance Purchase via Brand.com as the opportunity.

Additionally, she had identified \$173,000 booked into competitor hotels and although she identified this during the week of October 9-15, her research determined there was enough value in the market to consider a month-long push for this segment. Ruth also identified the competitors who were specifically booking this business. Knowing the competitors for this segment/channel combination provided the opportunity for Ruth and her digital marketing colleague to look at the websites and merchandising for Advance Purchase in these specific competitors. This invaluable competitive intelligence enabled them to recognize that on the website for one of their leading competitors, there was a focus on pre-paid/Advance Purchase rates, no doubt a factor in driving their success in acquiring much of this demand in the market.

Lastly, for this opportunity, Ruth identified that most Advance Purchase room nights booked into the comp set were during the week (Sunday through Thursday), and the primary booking lead time for Advance Purchase via Brand.com was more than two weeks. This was a positive trend, as it ensured the hotel would not have to keep a discount open into the shorter-term booking window the market had been experiencing.

Ruth wanted to ensure she could supply her digital marketing colleague with the feeder market and geo origin of the guests staying in the comp set. She identified the top 5 markets booking Advance Purchase were in the Northeast Corridor (Washington DC, New York City, Philadelphia, Boston), plus Chicago.



Feeder markets for Hibiscus leisure guests stretch through the Northeast Corridor.



CASE STUDY

Next, the digital marketing team had access to the demographics and psychographics of these travelers. The combination of factors the team discovered allowed the digital marketing leader to put together a campaign targeting these feeder markets and guest attributes.

Demographic Attribute

Demographic Attribute	Metric	Percentage
Children Present	Yes	42.9%
	No	39.6%
	Unknown	30.8%
Household Income	\$35K-\$50K	11.0%
	\$50K-\$75K	13.2%
	\$75K-\$100K	3.3%
	\$100K-\$125K	11.0%
	\$125K-\$150K	38.5%
Head of Household Education Level	Less than High School Diploma	15.4%
	High School Diploma	35.2%
	Some College	26.4%
	Bachelor Degree	17.6%
	Graduate Degree	18.7%

Demographics for leisure guests in the Hibiscus Hotel

Action Taken

Based on the potential of the business (\$173,000), the team established a target to convert a subset of this value and set a reasonable budget to promote Advance Purchase via Brand.com; with support from the digital marketing, sales, and commercial analysis leader, the plan was put into place quickly. Additional steps were agreed upon, including a meeting with the Brand marketing contact to update the Brand.com website with up-to-date content that put a heavy focus on promoting Advance Purchase rates within the identified booking time frame (15+ days before arrival).

The hotel was successful in improving the merchandising on their website around Advance Purchase, and gradually escalating digital media spend (keeping it in the 5-10% range of targeted revenue), and also expanded the use of social media for a successful conversion of more than half of the opportunity value.



INDUSTRY PERSPECTIVE



Marina MacDonald
Red Roof
Chief Marketing Officer



Alex Cisneros
Red Roof
SVP, Revenue Generation

How long have you been in or involved with the hotel or travel industry?

>> Alex has been working in the industry for 23 years and Marina, for 30.

How does the issue of digital distribution matter to hotel operations, marketing and/or asset management?

>> Digital distribution enables us to acquire and retain customers and improve the health of the business. It affords us increased visibility and enables us to improve the customer experience. Smart digital makes the business stronger.

What are the top 3 issues that you expect will have the greatest impact on customer acquisition for hotels in the next two-three years?

- 1 Personalization
- 2 Cost of acquisition: it's a critical piece of the funnel
- 3 Complexity of the data (and data modeling) around the customer

What is the smartest move you have seen deployed for customer acquisition in the digital market?

Here are two:

>> Trinny London (a cosmetics brand) has used digital marketing to build a suite of unique products and built a strong personalized identity that is personal and approachable; it is a case study in high growth and measurable success.

Domino's Pizza invest in digital platforms like their app and online ordering platforms to improve customer service and experience and they make smart use of data.

What is the smartest move your organization has made related to customer acquisition in the digital market?

>> We've used Tik Tok to win the attention of a younger demographic and that channel has grown fast. And we've successfully used our Member Exclusive Rates to acquire, retarget and engage with people as a brand. Is very intentional messaging and drives new revenue.

What 3 things would you suggest to a hotel general manager, owner or asset manager that can have the greatest impact on unit level profit and on asset valuation?

>> Know you have the right price and know what amenities your customers value.

Think digital and mobile first—how does your property look on mobile devices?

Who is your customer? What does they want? How do they take information? Are you easy to book? Can you evaluate performance and communicate what is working and what isn't, with your team?

Given many large new consumer facing companies who have signaled an interest in entering or selling hotel rooms online, how do you expect this to play out over the next 5 years?

>> We're keeping an eye peeled for more consolidation. And we may see Amazon return to the game. Any company that is able to bring significant capital and reduce the friction in the process of securing hotel rooms will find a large and active audience from which to profit.

If you had a crystal ball, what emerging technologies or business models do you anticipate could be game changers, or at least have the greatest affect on the hotel distribution landscape in the next 2-3 years?

>> Artificial Intelligence and the expansion of options for receiving payment (including different forms of payment processing) will both have a radical positive impact on the hospitality industry.



Creating Channel Bias

The theme of commercial strategy suggests there is benefit to “investing” in direct channels. Rather than assuming a passive posture with regard to a hotel’s business mix, here are many ways related to customer choice of booking channel. There are two categories of approaches: (1) investing in direct channels, and (2) proving channel benefits to the customer.



Investing in Direct Channels

Investing in direct channels covers a wide range of activities, but all are designed to drive direct bookings. Some questions to ask yourself:

- Are my direct channels easy to use?
 - Is your technology providing a frictionless experience?
- Am I using the ‘digital real estate’ of my direct channels to maximum benefit?
 - Am I merchandising products that I want to sell, for example Advance Purchase rates?
- Am I marketing my direct channels, in addition to my hotels?
 - Is a portion of my marketing budget dedicated to promoting my channels?
- When I get direct bookings, am I collecting relevant customer information to help me retain that customer on my own channels?
- When I get a booking on a 3rd party channel, am I collecting relevant customer information to help me convert that customer to my own channels?
- Am I thinking of 3rd party channels primarily as acquisition channels, and then converting those customers to direct channels? Some cruise lines, for example, are quite good at this – offering significant incentives to customers to book their next cruise before they even depart the ship.

An “invest in my own channels” approach can make the customer experience more frictionless and seamless, showcase products, and influence customer choice of channel. In addition to making the direct channels better, we can also influence customer choice of channel by offering, or promoting, customer-facing benefits.

Channel Benefits to the Customer:

In addition to investing in direct channels, there are many ‘customer benefits’ that a hotel can offer, beyond a basic stay for a given price, that can influence channel choice. These can include:

- discounted pricing,
- ability to earn free stays
- discounted or free upgraded WiFi
- free breakfast
- ability to specify aspects of a stay such as connecting rooms, choose your own room, early arrival/late departure
- waiving of certain fees, or a lenient cancellation/change policy.

For every one of these (or other) benefits, the hotel(s) must decide who has access to them. Thinking about a “channel play” for each, as well as a “loyalty play” can be a worthwhile discussion for the commercial strategy team. For example, a hotel could offer free breakfast to all customers, and this has obvious pros/cons. Alternatively, the hotel could offer this only to customers who book on direct channels (or only to loyalty members who book on direct channels), with a different set of pros/cons.



INDUSTRY PERSPECTIVE



Navroz F. Saju

HDG Hotel Development
Principal and Founder
Chair of the IHG
Owners Association,
IHG Owners Association
Global Board of Directors



How long have you been in or involved with the hotel or travel industry?

>> Since July 1981 when my family bought an Econolodge in Ocala, FL.

How does the issue of digital distribution matter to hotel operations, marketing and/or asset management?

>> We have found that brand loyal members are less costly to acquire and serve and it is worthwhile to create bias in the brand direct channels. It all comes down to making decisions in customer acquisition that result in improved asset value and avoid those that reduce asset value.

What are the top 3 issues that you expect will have the greatest impact on customer acquisition for hotels in the next two-three years?

- 1 Higher cost of acquisition through third party intermediaries
- 2 More leisure guests who are brand agnostic mean its key to have strong online content, good reviews and ease of booking, especially mobile.
- 3 The brands that can convey a strong value proposition to differentiate in their products and services (digital and onsite) will have a big advantage.

What is the smartest move you have seen deployed for customer acquisition in the digital market?

>> Hilton's digital key allows guests to control check in and third parties can't compete

What is the smartest move your organization has made related to customer acquisition in the digital market?

>> Focus on better consumer reviews and strong responses to them;

invest in revenue management

What is the single biggest oversight or misstep that has lead to a key learning related to customer acquisition you have witnessed in the last 2-3 years?

>> When inventory and rates are not well controlled in digital booking channels to match demand, a lot of money can be left on the table.

What three things would you suggest to a hotel general manager, owner or asset manager to have the greatest impact on unit level profit and asset value?

- >>
1. Stronger local sales presence with direct links
 2. Great maintenance and upkeep even for older properties to ensure good reviews and more efficient operations
 3. Invest in great content on brand website to grow direct bookings

What is the next thing that you predict will diminish in importance and gradually fade away that is currently a part of customer acquisition in the digital market?

>> Traditional bookings will decline and consumers will expect to buy more a la carte so they can pay for what they want and not pay for services they don't use such as fitness centers or breakfast.

If you had a crystal ball, what emerging technologies or business models do you anticipate could be game changers, in the next 2-3 years?

>> Extensive use of mobile apps to handle the entire customer travel journey: gather info, book, check-in, food orders, local destination info. Leisure guests are becoming more brand agnostic and continually expect more services through mobile apps. Guests being able to control their stay experience via their brand app on their phone.



Case Study II:

The Sunflower Inn at the Airport—Taking Action on Optimal Business Mix

The Sunflower Inn at the Airport consistently outperformed many of the hotels in their legacy benchmark group; however, the hotel had experienced consistent declines in RevPAR performance on both a COPE (excluding booking costs) and Hotel Collected (including booking costs) basis. The commercial team wanted to understand the decline in RevPAR performance and try to prevent further erosion.

The reasons for the hotel's performance decline were varied including that the hotel lost its airline crew base and had started to experience a decline in the group segment that the hotel was fighting to keep by targeting the smaller weekday corporate groups they knew to be booking in the market. With only 1600 square feet of meeting space, they were selective in the groups that were a good fit but at an airport hotel, they felt there were still quite a few.

To combat the losses in RevPAR, The Sunflower Inn at the Airport wanted to identify all market opportunities on the assumption that there were likely more demand drivers than those in their traditional primary or secondary comp sets.

Process to Identify Optimal Business Mix



The hotel identified competitors who were capturing "like" business as the subject hotel i.e., similar booking channel, rate segment, rate range, day of week, booking lead time. It was important for them to identify competitors by segment in order to learn where current travelers were booking rather than assume it was only the traditional comp set hotels.

Market Profile of all Competitors

The first thing they did was identify the hotels that had any degree of overlap with the Sunflower Inn and determine how much of the business was a close match for the type of business they would pursue in terms of day of week, lead time, length of stay, and overall rate range. They were not looking for those with most overlap, but rather to understand which hotels had business that they wanted to pursue so they could target more accurately.



Property Name	Capturable Business
Four Points by Sheraton Rainford Downtown	79.6%
Courtyard Rainford	68.8%
Fairfield Inn Rainford	68.5%
Hampton Inn & Suites Rainford	67.2%
Holiday Inn Express Rainford Sedgefield	55.8%
Courtyard Rainford Downtown	41.3%
Crowne Plaza Rainford	38.8%
Travelodge at Rainford Airport	36.3%
Residence Inn Rainford	35.6%
La Quinta Rainford Sedgefield	33.5%
Hilton Garden Inn Rainford	32.0%
Sheraton Downtown Rainford	31.9%
Holiday Inn Rainford—Westside	25.3%
Radisson Rainford	18.0%
Embassy Suites by Hilton Rainford	16.3%
Cambria Hotel Rainford	12.2%
Doubletree by Hilton Rainford	9.2%
Wingate by Wyndham Rainford-Sedgefield	9.2%
Residence Inn Sedgefield	5.3%
Note: hotels in boldface are part of the traditional comp set	

After a competitive review, this is a list of all the specific hotels the subject hotel competes with. The “Capturable Business” column represents the percentage of “like” business that has been identified in each of the hotels on the list. “Capturable” does not mean “optimal”, and a higher percentage of capturable business does not mean we should only focus on that hotel or group of hotels. The effort should focus on the hotels with the overlap in the segments where the subject hotel has opportunity.

The hotel was performing at or near peak Tuesday, Wednesday, and Thursday

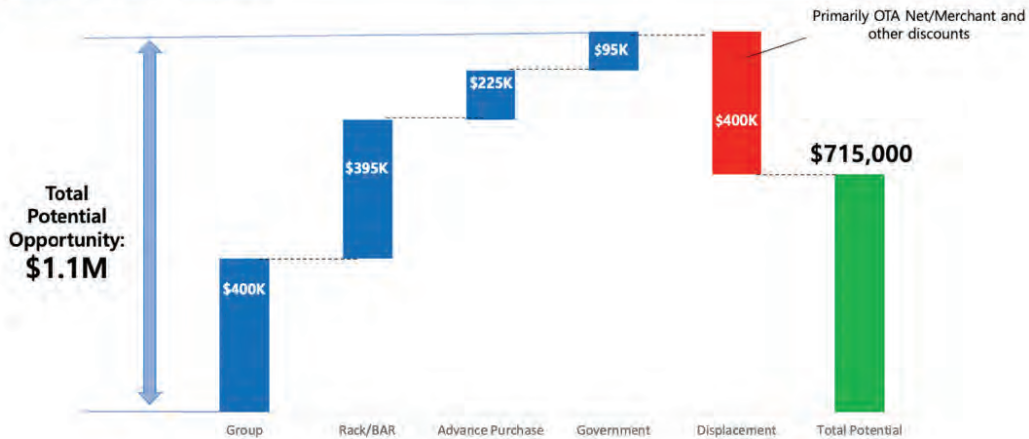
- The biggest area of opportunity, surprising to them, turned out to be weekend Group
- As they suspected, there were quite a few hotels attracting business that would be a good fit for the Sunflower that were not reflected in the traditional comp sets.
- The analysis exposed four primary areas of opportunity:

Segment	Value Currently Booked into Known Competitors
Rack/BAR (+Loyalty Member Rate & Promo/Discount)	\$350,000-\$400,000
Advance Purchase	\$200,000-\$225,000
Group	\$350,000-\$400,000
Government	\$85,000-\$95,000



Optimal Waterfall

Optimal Business Mix Opportunity of \$700K+ (Net of Displacement)



A visualization of the pool of capturable demand; in this case, the number of room nights in each rate category that are available.

The hotel was able to characterize each of the main opportunities by rate category (also called segment) to understand:

- Value of each opportunity
 - to establish a reasonable budget in order to target the business
- List of competitive hotels capturing that demand at the time of the analysis
 - to know where to look to find the business
- Timeframes: months, weekpart, days of week
 - to plan the right timing for the tactical plans to pursue the business (including lead times)
- Channels used by consumers
 - to go back to the right "pipe" and utilize the appropriate sales, digital, promotional, pricing and/or inventory management levers
- Rates for current demand
 - to ensure acquisition efforts are in line with consumer's rate expectations
- Displacement required (how much and in which segments)
 - to make space for the rate categories with higher profit contribution



Rack/BAR revenue opportunity

Rack/BAR Opportunity

Four Points by Sheraton Rainford Downtown

Crowne Plaza Rainford

Courtyard Rainford

Holiday Inn Rainford - Westside

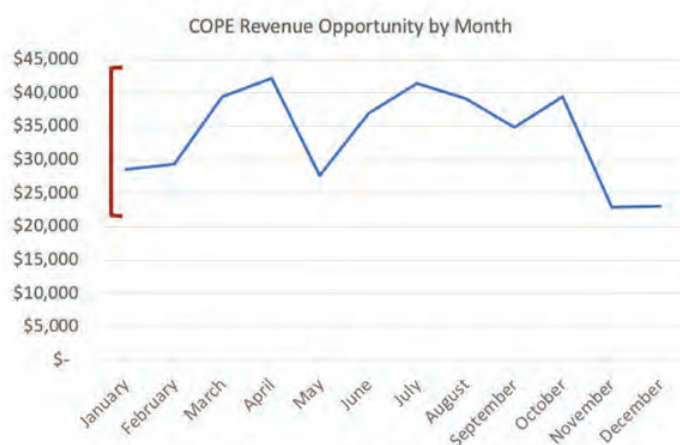
Courtyard Rainford Downtown

Travelodge Hotel at Rainford Airport

Summary

- Biggest opportunity is July-October
- Channels: Brand.com (45%) and Voice (35%)
- April and July spikes have heavy weekday opportunity;
Spring and Fall heavier weekend potential
- Opportunity range \$25k=\$40k per month

Note: boldface hotels in traditional comp sets



Value of Opportunity: \$320,000-\$395,000
COPE RevPAR Opportunity: \$4-\$5

The Rack/BAR opportunity visualized by month.

Action Taken–Rack/BAR

The commercial strategy team re-researched the content on Brand.com and scripting used in their 800 number call center. With almost half (45%) of the Rack/BAR demand coming into the market through the Brand.com channel, they wanted to pursue \$100,000 of this incremental business to see how much they could convert during the window of opportunity (July-October). They reinforced the visual content on their website and decided to spend funds to enhance their social media outreach. They were willing to spend 10%-15% of the opportunity value to win more of this business so initially budgeted \$10,000 for Brand.com initiatives including added funding with their brand's field marketing with the intention of increasing that funding as results improved. With more than one-third (35%) of the Rack/BAR business captured by their competitors coming through 800 number call centers, they decided to run an awareness campaign and offer incentives to the call center agents to improve booking volume in their market. Both Brand.com and call center initiatives were largely focused on improving content and they periodically checked the websites in the Rack/BAR targeted comp set hotels and shopped the 800 numbers of the competitors along with their own hotel to compare and determine if they had achieved their goal to offer superior merchandising. The hotel ended up gaining share in both Brand.com and the call center. It took them about 6 months to learn the mix of website media versus social media to move the needle on improvements. The efforts in the call center were quicker to yield results.



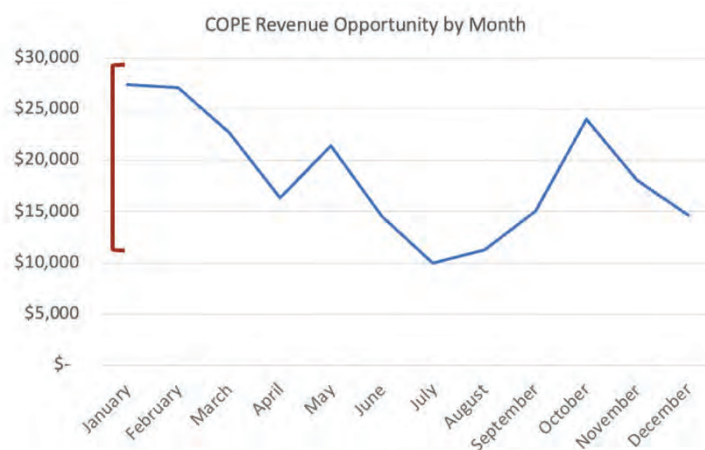
Advance Purchase Revenue Opportunity

Advance Purchase Opportunity
Fairfield Inn Rainford
La Quinta Rainford Sedgfield
Doubletree by Hilton Rainford
Holiday Inn Rainford - Westside
Courtyard Rainford
Embassy Suites by Hilton Rainford
Crowne Plaza Rainford

Summary

- Opportunities mostly January-May; Slows down June-September
- Majority of opportunities are on weekdays (76%)
- Look to Brand.com to increase booking volume; historically 9.5% and optimally 26%
- Market rates are +\$5-\$7 above Sunflower
- Opportunity range \$95k=\$27k per month

Note: boldface hotels in traditional comp sets



Value of Opportunity: \$200,000-\$225,000
COPE RevPAR Opportunity: \$2-\$3

Action Taken—Advance Purchase

The Sunflower Inn decided to go after the \$200,000+ opportunity as a potential alternative to higher cost OTA business. When the commercial strategy team learned the rates being booked in the market are \$5-\$7 higher than they were getting, they thought if they come in slightly below that, they could still improve the rates they had before the analysis. The commercial team decided to look at the websites each of the competitors that were currently getting the Advance Purchase business in the market and discovered that one competitor was proactively merchandising Advance Purchase rates while the Sunflower website made it difficult to find their Advance Purchase offering. Further, on the GDS systems, the Sunflower's Advance Purchase option was buried so deep in the system, it wasn't likely any agent would go to the trouble to find it. The team decided to focus on improving merchandising on Brand.com and through the GDS without spending significant funds and was able to improve their share of this business very quickly. The hotel was able to improve market share in Advance Purchase and improved the rate by over \$2.



Group Revenue Opportunity

Group Opportunity
Residence Inn Rainford
Residence Inn Sedgefield
Hilton Garden Inn Rainford
Holiday Inn Rainford - Westside
Doubletree by Hilton Rainford
Cambria Hotel Rainford
Radisson Rainford
Embassy Suites by Hilton Rainford

Summary

- Opportunities are year-round but slow down June-August
- Primary target (82%) is weekend
- Monthly opportunity range \$25k-\$40k

Note: all opportunity is found outside of the traditional comp set

This view highlights the competitors by the segment of opportunity, Group. There are no hotels in bold, meaning none in the hotel's primary comp set have been identified as competitors for Group.



The Group opportunity visualized by month.

Action Taken—Group

The sales manager led the effort, reaching out to a partner that supplied group leads. In a matter of days, the team had a list of over 300 Group leads for weekends, pulled from the hotels that were getting that business in the months they wanted it. The average booking lead time, they found, was about 90 days out, so they had time to pursue these leads.

The sales team reached out to groups who booked competitor hotels previously. Using guidelines from the commercial strategy team for rate and optimal number of rooms per group (based on need by date and season), the sales team captured 30% of all their outreach to weekend Group business.



Government Opportunity

Government Opportunity
Hampton Inn Rainford
Radisson Rainford
Hilton Garden Inn Rainford
Holiday Inn Rainford - Westside
Embassy Suites by Hilton Rainford
Fairfield Inn Rainford

Summary

- Opportunity year round, but mainly June-December
- Channels: GDS and Brand.com (93%)
- COPE ADR for the hotel and benchmark suggest both are taking a blend of federal and state business; confirms the market is not "buying" this business with a lower rate
- Opportunity range \$4k-\$10k per month

Note: boldface hotels in traditional comp sets

Action Taken--Government

The team focused on capturing Government business that was booking in hotels in their market and submarket, but had not yet stayed at The Sunflower. By reaching out to the agencies that were booking that business directly through the hotel website and via GDS, The Sunflower was able to increase their annual Government production by almost \$95,000.

MY PROPERTY								BENCHMARK 0							
IATA NAME	IATA CODE	SEL. PERIOD	PREV. YEAR	YOY	LEAD TIME	LOS	LOYALTY %	SEL. PERIOD ▼	PREV. YEAR	YOY	LEAD TIME	LOS	LOYALTY %	PERF. COMPARISON	
Travel Store Inc.	55359135	\$738.52	\$0	▲ 100.0%	10.3	1.0	71.8%	\$166,855	\$56,929	▲ 193.1%	19.5	1.9	60.7%	<div></div>	
Ci Azumano Travel	49613384	\$584.74	\$651.94	▼ 10.3%	10.7	1.3	100.0%	\$139,383	\$115,048	▲ 21.2%	21.0	1.6	87.1%	<div></div>	
Omega World Travel Inc.	34535082	\$10,003	\$387.39	▲ 2,482.2%	13.1	2.4	85.1%	\$121,677	\$105,991	▲ 14.8%	8.6	2.7			
Cwtsatotravel	05518214	\$132.28	\$395.63	▼ 66.6%	5.0	1.0	100.0%	\$112,095	\$192,538	▼ 41.8%	18.2	1.1			
Travel Inc	11687001	\$873.99	\$0	▲ 100.0%	2.5	3.0	100.0%	\$102,446	\$58,564	▲ 74.9%	13.8	3.7			
World Travel Inc	39575675	\$2,458.39	\$138.28	▲ 1,677.8%	11.9	1.6	75.3%	\$69,029	\$75,784	▼ 8.9%	14.9	1.8			
Manassas Travel	46632235	\$1,645.18	\$0	▲ 100.0%	12.7	1.8	62.4%	\$67,895	\$90,633	▼ 25.1%	16.4	1.6			
Cwtsatotravel	21641550	\$155.70	\$0	▲ 100.0%	15.0	1.0	0%	\$63,169	\$79,426	▼ 20.5%	16.5	1.3			
Cwtsatotravel	36758293	\$151.78	\$0	▲ 100.0%	23.0	1.0	0%	\$60,190	\$68,208	▼ 11.8%	19.0	1.7			
Massachusetts Institute Of	22520455	\$0	\$393.39	▼ 100.0%	0	0	0%	\$53,835	\$34,742	▲ 55.0%	11.0	2.0			
Cwtsatotravel	52505390	\$0	\$264.55	▼ 100.0%	0	0	0%	\$42,973	\$67,527	▼ 36.4%	16.6	1.7	80.5%	<div></div>	

Benchmark receives \$800,000+ in gov't business from named accounts vs. \$15,000 for Sunflower Hotel

Benchmark receives \$800,000+ in gov't business from named accounts vs. \$15,000 for Sunflower Hotel

The agencies booking government business into Rainford are clearly visible showing The Sunflower's production as well as those in the Government benchmark. The Sunflower's commercial team is targeting an optimal mix that calls for \$85,000-\$95,000 from government segment so they can curate that from a larger total.



INDUSTRY PERSPECTIVE



Garine Ferejian-Mayo

Sonesta International
Chief Commercial Officer



How long have you been in or involved with the hotel or travel industry?

>> For the past 30 years, I have led teams through Operations, Sales, Revenue Management, Distribution, and Field Marketing.

How does the issue of digital distribution matter to hotel operations, marketing and/or asset management?

>> The digital marketplace will evolve with privacy, data, artificial intelligence, various engagement platforms, super app, etc. We must have a holistic view to create a commercial strategy and drive direct customer relationships.

What are the top 3 issues that you expect will have the greatest impact on customer acquisition for hotels in the next two-three years?

- 1 Capture consumers' attention. Cutting through and differentiating with brand messages.
- 2 Privacy, Data & Security. Truly leveraging customer data to win customer's minds and hearts while protecting their personal information and building trust amongst them.
- 3 Total cost of acquisition. Having a full overview of integrated campaigns / messages, true attribution and acquisition related expenses must be considered including sales, marketing, agency fee, salaries, etc.

What is the smartest move you have seen deployed for customer acquisition in the digital market?

>> Nike. Their direct-to-consumer strategy by leveraging data and interconnecting store and digital experiences to own the customer relationship and expand its profitability.

What is the smartest move your organization has made related to customer acquisition in the digital market?

>> As a new organization, we continue to evolve, test and learn the best option to drive awareness, traffic to internal channels, and drive conversion.

What is the single biggest oversight or misstep that has led to a key learning related to customer acquisition in the last 2-3 years?

>> The game is no longer just about direct bookings or cost, it is about understanding how your customers engage your brands through multiple channels and partners. If you want to win, you must change how to manage the distribution landscape.

What three things would you suggest about customer acquisition and digital distribution to have the greatest impact on unit level profit and asset valuation?

- 1) Technology – must have a foundation to build on and innovate
- 2) Clean customer data – without it you cannot drive effective commercial strategy and win the heart of customers.
- 3) Alignment – each functional department must align on objectives and strategy so they can work together to deliver results.

What is the next thing that you predict will diminish in importance and gradually fade away that is currently a part of customer acquisition in the digital market?

>> Third party tracking as consumers are demanding greater privacy including transparency, choice and control over how their data is used. It is imperative that you have the technology framework to consolidate customer information so that you can have a single view of the truth.

Given many large new consumer-facing companies with an interest in playing a role in selling hotel rooms online, how do you expect this to play out in the next 5 years?

>> We will see more consolidation. OTAs will continue to dominate the market as a connector for both suppliers and distributors due to their continuous investment in distribution technology. You will also see more partnerships to expand reach and keep customers within their ecosystem beyond their core offering, such as, Uber.

If you had a crystal ball, what emerging technologies or business models do you anticipate could be game changers in the next 2-3 years?

>> Various types of Artificial Intelligence technology will continue to mature and will play a key role.





LOYALTY AND LIFETIME VALUE ANALYSIS

One underlying foundation of any successful business and certainly a variable in a large part of the hotel business, loyalty or affinity to a brand plays a key role. Whether it is a formal point-based program in a large brand, or one in a smaller brand or hotel that inspires repeat usage because the product or service is highly valued, loyalty plays a role in the overall industry as well as within individual properties. Hotels can be disadvantaged by competitors in their market with higher levels of engagement to affinity programs. Loyalty can play a critical role in reducing acquisition costs when it drives repeat visits and when it results in a higher proportion of business to come through higher

profit margin channels. Higher profit margins will yield higher asset values so the topic of loyalty is pertinent to the overall theme of commercial strategy. Since the purpose of loyalty is to develop a core customer base that returns multiple times, the value derived from a recurring customer base becomes more concrete when it is possible to calculate a customer's "lifetime value" or the overall benefit derived over multiple stays.

The Loyalty Play

Not so long ago, loyalty was a lever to gain share from one's competition. That of course is still true, but now loyalty is also a lever to influence choice of channel. From a given hotel's perspective, "I want you to choose me over my competitor hotel, AND I also want you to choose one of my direct channels over my competitor channels" is the goal. Given this, a hotel needs to position itself to demonstrate the value of selecting this hotel over another, AND needs to position its direct channels to demonstrate the value of selecting these direct channels over other channels.

Channel distribution may represent the most daunting challenge faced by hotels today, and loyalty may represent the most important lever to address it. 'Loyalty' is such a broad term, and this can lead to confusion. For the purposes of this book, we will define loyalty as a relationship between a consumer and a hotel or set of hotels that influences the decisions of each. Hotel brand companies often note that loyalty members i) stay more, ii) pay more, and iii) are much more likely to book direct. The first point is obvious, and true by definition, while the second is a matter of when and where they stay, as well as any negotiated rates that may be relevant. But the last is an issue of customer behavior that has critical implications for hotels.

Loyalty Points

The foundation, though certainly not the entirety, of many loyalty programs is points. Customers can earn points and then redeem those points later for a free stay. This sounds simple, and in concept it is. But in practice, it can get quite complex. A few questions to consider:

- How much is a point worth?
- How many points does one earn for staying?
- How many are needed for a redemption?
- How does the redemption hotel get paid?

The nuances of this are beyond the scope of this book, but let's work through a simple example; it is an illustration only and not based on any hotel or brand's actual program.



Loyalty Points Example

You are the brand manager for the Andromeda Hotel chain, which currently has two hotels: Andromeda NYC and Andromeda DC. Let's assume these hotels have different owners. Some specifics:

- Both hotels charge a \$100 retail rate for every night of the year, and there are no other rates available for sale.
- You devise a loyalty program whereby a customer earns a point for each paid stay at either hotel. Once a customer has earned 20 points, they can redeem those points for a free night at either of the two Andromeda hotels.
- One particular customer stays 20 times at Andromeda NYC and then chooses to redeem those 20 points for a free stay at Andromeda DC.

Who pays the DC hotel? The customer? No, because they have earned a free stay. The owner of Andromeda DC? No, because hotel owners are investors who are looking for a return on their investment, rather than giving away free stays. The Andromeda DC hotel gets paid from the loyalty program itself, and the program is funded from each hotel where points are earned. How does this work?

- For each paid stay at Andromeda NYC, that hotel contributes 5% to the loyalty program [the “charge-out rate”].
- Each time the customer pays \$100 to stay at the Andromeda NYC, the hotel pays \$5 of this into the program.
- There are 20 such stays, in our example.
- The loyalty program now has \$100, which it pays to the Andromeda DC (the ‘reimbursement rate’, in this example equivalent to the retail price, although it varies in practice).



In this simplified example, we see that every time a paying loyalty member stays at the Andromeda NYC hotel, they pay the hotel \$100, and the hotel takes \$5 of that and pays it into “the pot” (i.e., the loyalty program). In reality, the amount paid into the pot may be even less than 5% of the rate paid and customers would stay 5-8 times to get a free stay (not 20). This means that the payout for a redemption at the Andromeda DC hotel will typically be much less (on average) than the full retail rate.



This still seems pretty straightforward. The redemption hotel (Andromeda DC) is happy. The customer may be happy to earn a free night but would not want to work so hard for it. BUT...the Andromeda NYC hotel is most certainly unhappy about this...they are paying 5% of every paid stay to the loyalty program. This is less than a travel agent commission but it is still a real cost. The hotel/brand must offer a program where all parties benefit.

A hotel loyalty program needs to balance some competing interests:

1. The customer (loyalty member): the program needs to be attractive enough to influence behavior.
2. The redemption hotel: the program needs to pay a “fair” amount to this hotel.
3. The “earn” hotel: the program needs to keep the “charge-out rate” low enough to be appealing to the hotel owner who wants benefit by participation.
4. The program itself: the program needs to be solvent over time, meaning it needs to bring in enough money to cover what it pays out (and cover program expenses). This can come from charge-out rates, and perhaps some other subsidies from the brand company.

So...you as the brand manager for Andromeda need to devise a loyalty program that is appealing to consumers so they have an incentive to stay at Andromeda Hotels when they travel, has a low enough charge-out rate to be appealing to the owner of a hotel with a lot of paid loyalty stays, has a high enough reimbursement rate to be appealing to a hotel with many redemptions, and is financially solvent.

Beyond Points

Note that for large brand companies, the foundation of a loyalty program is points, though there is quite a lot of member value beyond points, as noted below. For an independent hotel, or a very small brand, consumer behavior may be quite different – a single hotel is unlikely (in most cases) to have the same customer frequency/repeat behavior as a portfolio with thousands of hotels. Because of this, a loyalty play at an independent hotel may emphasize non-points benefits.

Points can represent a significant value to loyalty members. But other benefits matter too, and these benefits are conferred based on ‘status’. For example, an independent hotel may have a loyalty program that has no points, only status. Large brand portfolio companies also deliver value based on status. While all loyalty members get some benefits, other benefits are restricted to a subset of these customers, based on their status within the program, perhaps with designations such as bronze, silver, gold, or platinum.

Status Benefits

What value can be delivered based on status? The options are many. A few examples:

- Early check-in or late check-out: Certain status levels may enable the customer to check in before the hotel’s stated check-in time, and/or check-out later than the hotel’s specified time.
- Ability to specify room attributes: a customer with status may be able to guarantee connecting rooms, or a certain location in the hotel, or view type.
- Waived Fees: status customers may be able to cancel or change a reservation without penalty, or perhaps with more lenient parameters than are available to non-status customers.
- Upgrades: higher status customers may get free room upgrades, to a larger room, a better view, or a room with access to a specific lounge.
- Amenities: status customers may receive a welcome gift, a personal note, a bottle of wine, or something similar.
- Dedicated support: some higher status customers may have access to a specific phone line or site that gives immediate personalized service.



BUT OTHER BENEFITS, SUCH AS ABILITY TO SPECIFY ROOM ATTRIBUTES, OR WAIVING CERTAIN FEES, COULD BE OFFERED TO ANYONE, AND THERE IS VALUE TO DOING SO. SO WHY RESTRICT ACCESS TO THESE BENEFITS? BECAUSE DOING SO MAY INFLUENCE CUSTOMER BEHAVIOR.

This list is just a small sample of potential benefits. These ‘status benefits’ may be, and often are, restricted to direct-channel bookings. And some of these benefits may be available to direct channel bookings regardless of loyalty membership or status. These benefits, and many others, are valuable offerings to anyone; why restrict them only to certain customers?

For example, let’s assume your hotel has the ability to guarantee an ocean view with a balcony, at the time of reservation. This would be valuable to any customer who is interested in those attributes, and could even be a point of differentiation for your hotel relative to local competition. Offering this capability on a 3rd party channel, for example, would surely increase demand and bookings from that channel – why turn that demand away? Some benefits may be ‘capacity constrained’, meaning that, logistically, it cannot be offered to everyone; for example, there are a limited amount of upgrades or late checkouts that can be offered, for practical reasons. But other benefits, such as ability to specify room attributes, or waiving certain fees, could be offered to anyone, and there is value to doing so. So why restrict access to these benefits? Because doing so may influence customer behavior. Customers may make decisions in order to access these benefits, and those decisions may be economically beneficial to your hotel over time, in terms of loyal behavior and/or choice of channel.

Lifetime Value Analysis: Why it is Valuable to Have a Base of Recurring Customers

When considering the many tradeoffs of the business opportunities posed in any given market, it is important to consider the lifetime value of a customer, not just the costs from an individual transaction. The short-term cost in acquiring a customer should take into account the potential value in having that customer return or refer others for future visits. It is a well documented fact in marketing that the cost in getting a customer to return is substantially less than the cost of acquiring a new customer.

The concept behind hotel brand loyalty and member programs is to encourage consumers to return to a brand thereby increasing spend, getting greater customer engagement and lowering the cost of subsequent visits over time. The longstanding marketing concept of “lifetime value” spans many industries and indicates that loyal customers generate a value to the business based on the cumulative revenue they generate over multiple purchases. Repeat customers generate more revenue because of their inclination to come back more often, spend more money and refer friends and family to a brand. This means that the value of each recurring customer over time has been documented to be much greater than the value they bring the first time they buy a product or service.¹

One might ask what the likelihood of returning to the same hotel or brand is for an OTA channel customer vs. for a Brand.com customer who has signed up for a loyalty program. Given their business model, it is reasonable to assume that the OTAs are agnostic as to which hotel or brand the customer books so long as that customer books through the OTA site. In contrast, the hotel brand business model calls for creating incentives to get the customer to rebook the same brand and so efforts are made to offer compelling benefits toward this objective.

¹Steenburgh, Thomas, and Jill Avery. “Marketing Analysis Toolkit: Customer Lifetime Value Analysis.” Harvard Business School Background Note 511-029, July 2010. (Revised January 2017.)



The model for the Loyalty member includes an upfront cost to acquire the guest the first time along with a slight increase in rate generated either through successful upselling or by offering premium products that better match known guest preferences learned through hotel and brand engagement with the guest. The data from the Book Direct study* sample shows that the Brand.com Guest-Paid ADR is higher than the Guest-Paid OTA ADR so this rate gap is reflected in the Lifetime Value analysis.

*January, 2019, Kalibri Labs, Book Direct: The Costs and Benefits of Loyalty 2018

Lifetime Value Analysis



Data shown is based on averages from the Kalibri Labs database and used for illustration purposes only.

For the OTA channel, a hotel is often cycling through new guests each time; a hotel may have the same basic rate but the OTA will frequently offer discounts to attract new guests. The basic, or routine booking costs will remain the same no matter how many guests a hotel attracts. The amount shown here is the sample commission rate of 15% paid by hotel brands that also have loyalty programs. For the same four stays, the hotel only nets \$520.20. Additionally and of great importance for sustainable profit contribution, the hotel has gained no residual benefit related to the customer relationship to drive advantages in upselling, engagement or preference knowledge to enhance customer service.



The differential between the Brand.com Loyalty and an OTA booking value of almost 12.5% or \$65 can accumulate a sizeable gap over time. If a hotel has a 55% Loyalty contribution, then a higher percentage of its stays will benefit from the higher contribution amounts.

Consider the two sample hotels below. They each have significantly different proportions of business. The loyalty contribution is worth over \$1M more to Hotel A and, even when all low profit margin business is combined, the same number of stays ends up at \$200k less in terms of profit contribution based only on rooms revenue. For those hotels with ancillary revenue opportunities, the contribution from F&B, parking, spa or other services often vary with recurring and loyalty members typically outspending the one-time guest booked through a third party.² For the same effort and wear and tear on the hotel, there may be a substantial differential in profit. Applying an 8% capitalization rate (“8-cap”)* on this \$200,000 differential equates to an improved asset value of \$2.5MM.

200 room hotel with 30,000 stays (average net ADR per stay)	Hotel A	Hotel B
Brand.com Loyalty \$146.09/stay	\$2.41M (55%)	\$1.1M (25%)
Other \$135/stay	\$810k (20%)	\$810k (20%)
OTA \$130.05/stay	\$975k (25%)	\$2.1M (55%)
Total	\$4.2M	\$4.0M

Hotel A benefited from its higher value loyalty business with a higher profit contribution as well as building a base of recurring customers.

However, the benefits of loyalty programs yield far more than the straightforward profit contribution. There are at least three other highly valuable factors that play into the equation.

1. The ability to **know the consumer preferences** through loyalty program participation enables a hotel to deliver a better experience by offering more appropriate products and services to meet the guest’s needs. This is good for both the hotel and the consumer.
2. Third party sellers that have aggregated a large amount of demand may commoditize the products in the market by emphasizing differentiation based on the rate alone as opposed to the stay experience. When selling a large percentage of business through these sites such as metasearch and OTAs, hotels risk becoming commoditized when the message is all about finding the lowest rate, not **matching value to a guest’s needs**.
3. Loyalty members can function as **an insurance policy during down cycles**. A larger member base that is more likely to recur creates a more resilient business foundation to weather difficult economic times.

²Estis Green and Lomanno, *Distribution Channel Analysis: A Guide for Hotels*, 2012, page 156



For each hotel's internal assessment, the question is neither (1) "How much did I make on the initiative?" nor (2) "How much did it cost my hotel?". The question to ask is: *"Did I add enough recurring loyalty members to the base of my business to make the initial investment worthwhile?"*

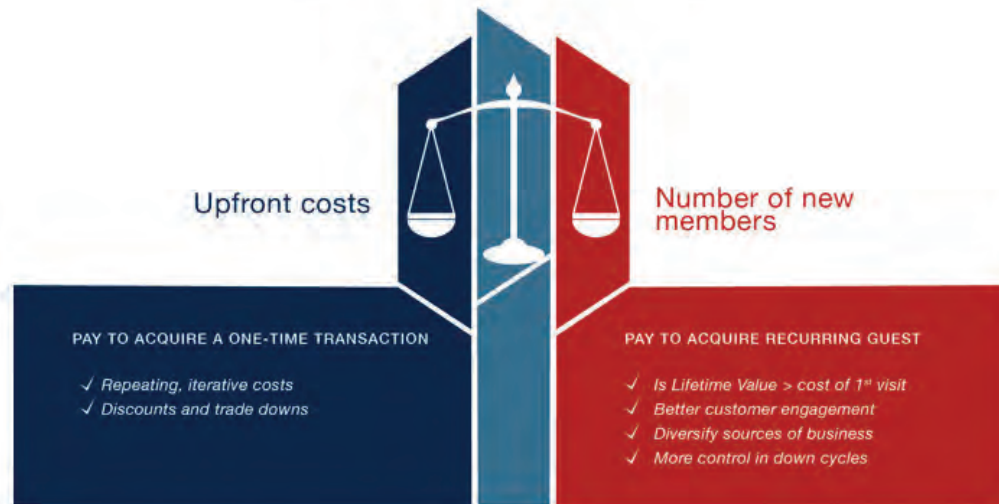
Since the loyalty room night contribution for the branded hotels has been strong, ranging from 40-60% of total brand hotel room nights, this contribution creates an important base for the hotels that reduces the amount of business needed from costlier third-party sources. As loyalty program members tend to come more often and/or refer friends and family, as well as spend more money in room and ancillary revenue centers, the residual benefit can be even greater than the direct revenue from each stay.

Summary of Lifetime Value Analysis

In examining the longer time horizon lens of a Lifetime Value Analysis, the main question is whether the incentives to join the loyalty programs will add meaningful numbers of new recurring guests to the base of a hotel's revenue foundation. Evaluation requires a calculation to determine if the revenue generated over multiple visits to a hotel is greater than the combined costs of the initial visit and retention fees, with the improved ability of the hotel to deliver superior customer service as a residual benefit to the consumer.

Lifetime Value Analysis

Value Proposition of Loyalty:
What do you want to acquire?



When a hotel builds their business around one-time transactions they incur the same costs each time with limited long-term benefit. They offer discounts or pay override commissions to gain advantage in that channel and do so every time no matter how much volume is generated. In contrast, seeking recurring guests may cost more the first time but the overall cost savings in subsequent stays and building a more stable and profitable base is a net positive for the hotel.



INDUSTRY PERSPECTIVE



Sloan Dean
Remington Hotels & Resorts
CEO



How long have you been in or involved with the hotel or travel industry?

- >> Since Summer of 2005. I've worked for brands, PE, owner operator, third party management & REITs.

How does the issue of digital distribution matter to hotel operations, marketing and/or asset management?

- >> With over half of all hotel bookings coming through digital / mobile, it is paramount. Digital distribution significance & importance increases every single year.

What are the top 3 issues that you expect will have the greatest impact on customer acquisition for hotels in the next two-three years?

- 1 Leisure will continue to dominate the US travel landscape and they are less brand loyal. How will loyalty change?
- 2 How will hotels change how they market to business/leisure travelers that are fully remote for "work from a hotel?" but it is really an entire new segment of remote workers who can work from anywhere
- 3 How does the OTA - Hotel relationship evolve in a post pandemic world?

What is the smartest move your organization has made related to customer acquisition in the digital market?

- >> We have full monthly Return on Ad Spend (ROAS) by campaign central reporting that allows us to measure every single campaign in a real time fashion. This is a unique capability.

What is the single biggest oversight or misstep that has led to a key learning related to customer acquisition you have witnessed in the last 2-3 years?

Several large brands not paying attention to "content." Too much focus on simply rooms pricing and not enough innovation on the digital assets we are selling.

What three things would you suggest to a hotel general manager, owner or asset manager to have the greatest impact on unit level profit and on asset valuation?

- >> Understand cost differences from channel to channel. i.e. Not all channels are equivalent in profit terms.

Be heavily involved in direct sales & the lead generation process.

Understand a hotel's content, display & positioning on various channels (& the steps one can take to optimize each channel).

What is the next thing that you predict will diminish in importance and gradually fade away that is currently a part of customer acquisition in the digital market?

- >> OTA sponsored ads will decline in total usage.

Given many large new consumer facing companies who have signaled an interest in entering or more active involvement in selling hotel rooms online, how do you expect this to play out over the next 5 years?

- >> Google will continue to heavily influence & shape travel and also be a big cost pressure for the OTAs & Brands. We see all other players as minor, even Amazon & Facebook.

The "newer" channel we see increasing is Instagram in its ability to inspire travel for specific destinations, resorts & vacations; it plays a big role in influencing destination weddings.

If you had a crystal ball, what emerging technologies or business models do you anticipate could be game changers on the hotel distribution landscape in the next 2-3 years?

- >> Great distribution, marketing & strategy around Independents with less reliance on OTAs. The brands have solid loyalty programs, but with a US travel market that is ever driven by leisure, loyalty is less valuable than pre-covid. Owners can consider, in the right locations and with the increase in leisure business, the benefits of being an independent compared to other options.



INDUSTRY PERSPECTIVE



Robert McDowell,
Choice Hotels International
Chief Commercial Officer



How long have you been in or involved with the hotel or travel industry?

- >> I've been in the travel industry for almost 30 years, including 12 years at Choice Hotels and over a decade and a half in the airline industry with KLM, Northwest Airlines and United Airlines.

Thinking about distribution and the digital marketplace and how it fits into the overall hotel landscape...how does the issue of digital distribution matter to hotel operations, marketing and/or asset management?

- >> Digital distribution is an absolutely critical component of hotel profitability. It helps deliver guests to hotels, and it ensures that those guests are acquired in a cost-effective manner. It also plays a key role in building brand loyalty, strengthening the relationship with the customer and driving repeat customer bookings.

What are the top 3 issues that you expect will have the greatest impact on customer acquisition for hotels in the next two-three years?

- 1 Digital check-in,
- 2 On-property chat, and
- 3 Mobile key. These digital capabilities are going to enable us to provide a more consistent and even better on-property experience than we do today, and that will drive customer acquisition.

What is the smartest move your organization has made related to customer acquisition in the digital market?

- >> Choice's acquisition of Radisson Americas has substantially expanded our offerings in the upscale segment, and it will greatly enhance our digital presence in upscale, enabling us to acquire more customers in that segment in the digital marketplace, as well as grow our Choice Privileges loyalty program membership.

Given many large new consumer facing companies who have signaled an interest in entering or more active involvement in selling hotel rooms online, how do you expect this to play out over the next 5 years and briefly, how will this affect hotel brands? hotel owners/operators? legacy distributors such as OTAs?

- >> Ultimately, delivering a strong value proposition to consumers is what drives them to book directly with a hotel brand. It's essential to offer consumers a world-class loyalty program, best in-class customer service and digital tools to improve the overall guest experience, including their experience on-property. Those things will drive customer loyalty and keep them coming back to you to book their hotel stays directly.

Hotel brands will look to partner with companies that can reach customers that they aren't already reaching and deliver those incremental guests to the brand at a reasonable acquisition cost. The companies that can do that will be successful.

If you had a crystal ball, what emerging technologies or business models do you anticipate could be game changers, or at least have the greatest effect on the hotel distribution landscape in the next 2-3 years? And briefly, how do you see them playing out?

- >> Artificial intelligence (AI) and ChatGPT have the potential to fundamentally transform the way consumers search for hotel accommodations online. If they're done right, they will make searching for hotels more conversational and consumer-friendly and deliver better, more personalized results to the consumer in a shorter amount of time.



Glossary

Available Rooms

Count of hotel rooms available for sale during a given date range.

Booking Costs (also known as reservation or transaction costs)

Made up of Channel and Transaction Fees, Retail Commissions, Wholesale Commissions, Amenity Costs* (luxury hotels only), and Loyalty Fees (as charged by hotel brands for qualified stays of loyalty guests).

**costs associated with on-site guest benefits committed for premium stays booked by travel agencies targeting the luxury traveler.*

Chain Class

Segments by which branded hotels are grouped based on average room rates. Independent hotels are included as a separate chain class category. The chain class segments are luxury, upper upscale, upscale, upper midscale, midscale, economy, and independent.

Channels of Distribution

These are the primary conduits through which reservations come to a hotel.

Brand.com

A brand's or hotel's website or mobile app that consumers use to book directly.

GDS

The Global Distribution Systems created initially as airline reservation systems that are now used by travel agencies to book all types of travel including hotels. This system is dominated by corporate and business transient bookings and these systems are used by Travel Management Companies (TMCs) to manage the booking activity of their corporate clients.

OTA

Online travel agencies are technology companies that enable consumers to self-book travel without the need to use a traditional travel agent. They offer a wide range of travel products including hotels, flights, car rental, travel packages combining products (e.g. flight + hotel or flight + car rental), short term/vacation rental and other options. They promote hotels and hotel brands and are paid a commission after the guest stay if the guest pays the hotel, or they retain a portion of the guest paid rates as a commission if the guest pays them directly. The largest of these OTAs in the U.S. are Expedia and Booking.com.

Property Direct

Property Direct bookings are when hotels are booked by a guest who calls directly (not through the 800 number), walks in, drives up to the hotel.



Voice

The 800 number call centers handle call-in bookings for guests or travel agents on behalf of hotels.

Note: Direct Channels are Brand.com, Voice and Property Direct while Indirect Channels include those used by the guest booking through an intermediary including GDS, OTA and FIT (traditional wholesalers).

Commercial Strategy

Commercial Strategy describes business plans that are designed to deliver a sustained revenue stream to a hotel (or group of hotels) that results in the highest profit contribution given the demand available in the market(s) where the hotel(s) operate(s). Commercial strategy is lead by on-property and above property teams including operations leaders on-site like general managers, and above property regional VP and SVP operations executives in conjunction with leaders of the specific commercial disciplines (that is, those charged with generating revenue) including sales, revenue management, digital and marketing teams. Sample roles that may fall under a commercial strategy approach are below.

Commercial Analysis Leader

Synthesizes data and develops key insights in cooperation with commercial discipline leaders and participates in decisions around sales, digital and other marketing/promotional plans with recommendations on broad-based pricing and inventory decisions.

Sales Leader

Recommends group, business transient and leisure sales targets—direct and 3rd party; proposes deployment of staff by segment/geography aligned with quantified opportunities; participates in decisions around digital and other marketing plans along with pricing/inventory decisions.

Digital Marketing Leader

Recommends brand, direct, 3rd party and other online targets and proposes deployment of media funds—how much and against which opportunities; participates in decisions around sales deployment along with overall pricing/inventory decisions.

COPE Metrics

Those metrics that refer to revenue retained after booking or transaction costs are removed.

(COPE=Contribution to Operating Profit and Expenses)

COPE Revenue

The amount of room revenue after booking costs are deducted from Guest Paid Revenue. These costs include channel and transaction fees, retail and wholesale commissions, loyalty fees, and amenity costs (luxury hotels only). COPE Revenue does not account for Sales and Marketing expenses.



COPE RevPAR

Using COPE revenue as the base to calculate revenue per available room. It's calculated as Room Revenue/Available Rooms for a given date range. COPE RevPAR tracks the revenue earned on what the guest pays minus all booking costs.

COPE ADR

Using COPE revenue as the base to calculate average daily rate. The calculation is COPE Revenue divided by Number of Occupied Rooms. COPE ADR tracks the revenue earned on what the guest pays minus all booking costs.

COPE %

The proportion of Guest Paid revenue kept by a hotel after all booking costs have been deducted. COPE % is COPE Revenue divided by Guest Paid Revenue. COPE % does not account for any Sales and Marketing Expenses.

Capturable Market Share or Capturable Revenue

The percent of Capturable Room Revenue that a subject hotel can achieve based on a matching algorithm that examines transactions by proximity of recipient hotel and demand curve that represent a good match to be worth pursuing for a subject hotel. This can be calculated for the hotel's actual revenue, optimal revenue (the targeted amount they are pursuing), or the difference between those two revenues. The number can be expressed as Guest Paid Revenue, Hotel Collected Revenue, or COPE Revenue.

Customer Acquisition Cost Categories

Amenity Expenses

The cost of contracted amenities for luxury consortia travel agency bookings, which can include dining credits, spa credits, welcome amenities, beverage credits or other amenities. Costs reflect the actual cost to the hotel to provide the amenity, including breakage (not the retail price of the amenity). Costs can be per stay (e.g. welcome amenity), per night (e.g. dining credit) or per guest (e.g. daily breakfast for two).

Channel Expense

Channel Expenses include costs to connect to a specific channel. Kalibri Labs tracks channel costs for Brand.com, OTA, GDS, Voice, and Property Direct bookings. Costs can be applied as a flat fee and/or a percentage of the booking revenue.

Loyalty Investment

The costs incurred by the hotel for eligible loyalty member stays including the cost of loyalty points, loyalty amenities, and loyalty services. Referred to as an investment since it is intended to result in recurring stays, not just a cost for each individual transaction.

Retail Commissions

The commission expenses paid to retail travel agencies, hotel-collect OTAs, and meta-search referral commissions.



Total Booking Expenses (total booking costs)

Total Booking Expenses include all transaction-level acquisition costs that can be attributed directly to an individual booking such as wholesale and retail commissions, transaction fees, channel costs and loyalty investment.

Wholesale Commissions

The commission expenses taken by net/merchant, opaque, or wholesale third parties before a net rate is remitted to the hotel.

Guest Paid Revenue

The amount of revenue a guest pays for a booking, whether they pay the hotel directly or a third party. This includes the portion the hotel keeps plus the wholesale commission paid directly to a third party such as a traditional wholesaler or OTA (merchant model or opaque).

Guest Paid ADR

Guest Paid Revenue divided by Occupied Rooms. Guest Paid ADR tracks revenue that the guest actually paid.

Guest Paid RevPAR

Guest Paid Revenue divided by Available Rooms.

Hotel Collected Revenue

The amount of revenue a hotel collects and records in their financial statement. Hotel Collected Revenue does not account for wholesale commissions, whether it's a traditional wholesaler or a merchant model or Opaque OTA.

Hotel Collected ADR

Hotel Collected Revenue divided by Occupied Rooms. Hotel Collected ADR tracks the revenue earned only on the portion collected directly by the hotel so excludes any wholesale commissions paid to third party wholesalers.

Hotel Collected RevPAR

Hotel Collected Revenue divided by Available Rooms. Hotel Collected RevPAR tracks the revenue earned only on the portion collected directly by the hotel so excludes any wholesale commissions paid to third party wholesalers.

Loyalty Contribution

The percentage of room nights that are made by those connected with a loyalty program.

Occupied Rooms

Room Nights or the count of hotel rooms booked and paid for during a given date range (includes comp rooms).



Optimal Revenue

The total amount of revenue that the subject property would earn if it performs to its targeted “best.” This can be expressed as Guest Paid, Hotel Collected, or COPE Revenue.

Opportunity Total

The difference in revenue between a subject hotel’s actual and it’s optimal or targeted performance.

Optimal Business Mix

This reflects the best mix of business for a hotel to target that (1) provides the highest profit contribution possible due to the various types of rate category/channel combinations and accounts for the cost to acquire it; (2) is a mix of business known to be available in a market (that is, others are getting it even if the subject hotel is not); (3) accounts for displacement of other known business that may be less desirable for a hotel to retain; (4) matches a subject hotel’s existing pattern of business in terms of length of stay, arrival and departure patterns and rate ranges; (5) is realistic for a hotel to pursue based on a hotel’s current loyalty contribution (or recurring guest base if not in a major brand), physical state of hotel, review scores, and other factors.

Optimal Business Mix (OBM) Analysis

Many hotels have internal targets for a mix of rate categories and channels that they strive to achieve and have had an optimal mix in mind as they pursue various types of business. It has been done using the best tools available at any given time and this process has occurred for decades.

Using data science along with currently available technology and data that is now more accessible to hotels, Kalibri Labs built a powerful proprietary algorithm to enable a more scientific approach to the time-honored process of establishing targets for a hotel. The difference is that it is driven by achieving a profit contribution target, not just a revenue target and it accounts for competitors by rate category to enable a more surgical and efficient approach. The algorithm evaluates all business in the subject hotel’s market that could be a fit (capturable market share), considering the impact of displacement and costs of acquisition, meeting space, loyalty contribution and other factors that impact how realistic a target will be. The OBM analysis saves a commercial team time in identifying realistic opportunities and sizes the opportunity so the costs to acquire the business can be aligned with its value.

OTA Business Models

Net/Merchant model

Bookings made by guests who pay the OTA in advance of the stay and the OTA gives the hotel the agreed portion of the guest revenue the OTA collected. They keep a portion that is a commission. This is the “Pay Now” model, similar to an Advance Purchase booking but it may or may not have conditions around paying in advance of the stay (such as discounts, cancellation policy etc)



Retail model

Bookings made by guests who pay after their stay. They make a booking but the hotel collects the revenue and then pays a commission to the OTA after the stay. It's a "Pay Later" option for the guest.

Opaque model

Bookings made on specific OTAs that offer deep discounts but the guest has to commit to a booking without knowing which specific hotel is being booked in a destination. The hotel name is "opaque" to the person booking.

Revenue Capture %

Revenue Capture % is the amount a hotel keeps of what a guest pays after removing all customer acquisition costs. It is calculated by dividing Net Revenue [room revenue minus (transaction costs + sales & marketing costs)] by Guest Paid Revenue.

Sales Efficiency

Sales efficiency refers to the effectiveness of a hotel's sales team in generating revenue. It is a measure of how efficiently the team is able to convert its resources (time, money, people) into sales revenue.

Sales efficiency can be calculated using various metrics, such as the ratio of revenue generated to the cost of sales and marketing activities, the time it takes to close a sale, or the average deal size. A high level of sales efficiency means that a hotel is able to generate a significant amount of revenue with fewer resources and lower effort, while a low level of sales efficiency suggests that a hotel may be wasting resources on ineffective sales and marketing activity.

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Cindy Estis Green's career began in corporate marketing and senior operations with Hilton International. After founding the data mining company, Driving Revenue, and selling it to Pegasus Solutions, Ms. Estis Green spent twelve years as managing partner of The Estis Group working with hotel owners on targeting value growth in their assets.

Estis Green has been honored as one of the hotel industry's 25 Extraordinary Minds in Sales and Marketing, was inducted into the prestigious Hospitality Technology Hall of Fame, named as one of Cornell University's 90 Influential Hoteliers and received the HSMAI Vanguard Award for leadership in moving the field of revenue optimization toward a focus on profit contribution. She was recently named as an industry "game changer"

when honored by the Cornell Hotel Society as a member of the 2023 Class of the Hotelier Hall of Fame. A prolific published author, Estis Green is highly sought after as a speaker on topics related to digital disruption and the impact on the economics of hotels.

Ms. Estis Green co-founded Kalibri Labs, a next generation commercial strategy platform to evaluate, predict and benchmark hotel revenue performance. Using data science, Kalibri Labs helps hoteliers optimize profit contribution to improve asset value and supports the real estate community with tools that refine underwriting for investment and development. Estis Green holds a BS degree from Cornell University and an MBA from The American University.



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Mark is the former President and CEO of Smith Travel Research (STR). Under his fifteen years of leadership, the company grew from a US firm to the most respected name in global hotel benchmarking.

Mark serves as Chair for the advisory board of the Center for Hospitality Research at Cornell University and serves on the University of Delaware's school of Hotel, Restaurant and Institutional management board and is a named Conti Professor at Pennsylvania State University. Mark also serves on the advisory board of The School of Tourism & Hospitality Management at Temple University. Mark holds a MS in Marketing from LaSalle University and an MBA from Temple University.



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Dave Roberts is an award-winning professor, author, and former hospitality executive. Dave joined Cornell's Nolan School faculty in the Fall of 2020. He teaches Introduction to Lodging Operations as well as Managing Hospitality Distribution. He previously taught graduate courses in Business Strategy and Corporate Finance at Virginia Tech. In February of 2022, he published his first book: *Hotel Revenue Management – The Post-Pandemic Evolution to Revenue Strategy*. Dave retired from Marriott in 2019, after 23 years with the company. Most recently, he was the Senior Vice President of Revenue Strategy & Solutions, with global responsibility for Revenue Management, Analytics, and Sales Systems, spanning over 7,000 hotels. Prior to Marriott, Dave was a manager in the Finance

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Jennifer's specialty is revenue management, using a successful profit-based model of collaboration with all commercial disciplines to achieve optimal performance. In her role as Vice President of Commercial Strategy at Kalibri Labs, she relies on this experience to help clients identify and solve strategic business priorities. Jennifer partners with clients to tailor plans for adoption and the effective utilization of Kalibri Labs products to optimize revenue and profit generation capabilities.

Prior to joining Kalibri Labs, Jennifer worked with several third party management companies, and has nearly two decades of experience in operations and revenue strategy at branded and independent hotels in major markets. She is a member of HS-

MAI's Revenue Optimization Advisory Board, and served as the co-chair for HSMIAI's Revenue Optimization Conference (ROC) from 2020-2022. Jennifer has served on the HSMIAI Washington DC Chapter Advisory Board since 2015. In 2017, HSMIAI recognized Jennifer as one of the Top 25 Minds in Sales, Marketing, and Revenue Optimization, and awarded her the Revenue Management Professional of the Year award in 2014.

Jennifer holds a BA in American History from Mercer University, and enjoys exploring new places. When traveling, her favorite thing to do is find local street art.



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We are confident that this report will help foster clarity in an environment that has grown in complexity over the years. Moreover, we believe this publication will help inform owners as they make the critical decisions that impact their distribution choices and ultimate profitability.

Best regards,

John Muehlbauer, CEO

Navroz Saju, 2023 Chair



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