



TRAVEL, LEISURE & TOURISM

Global Hotel Distribution Survey 2005

Managing pricing across distribution channels

ADVISORY

Introduction

Selling room inventory through third party channels can be costly with some agents taking 30 percent from the sale of a room.



Distribution continues to stimulate debate and remains one of the top issues for hoteliers across the world. Selling room inventory through third party channels can be costly with some agents taking 30 percent from the sale of a room. Importantly, it also has an impact on the complete customer experience and relationship development. Online agents have had a smooth ride to date and have enjoyed exponential growth in bookings – although they have had to spend significant sums on marketing. However, hoteliers are retaliating and are refusing to deal with agents that are not willing to tow the party line. There is no doubt that the internet is anticipated to continue to grow as a channel benefiting both hotels and online agents. But as accommodation demand continues to recover, is the pendulum beginning to swing back to the favor of hoteliers?

Online bookings are expected to continue to growth as predicted by numerous research groups:

- In relation to the U.S., the internet accounted for 23 percent of all travel booked in 2004, worth a total of U.S.\$54bn. This is forecast to grow to 33 percent or U.S.\$91bn in 2009. (Source: JupiterResearch).
- This compares to the European market where online sales increased by as much as 36 percent from 2003 to 2004 and reached U.S.\$21bn. A further increase of about 23 percent during 2005 to about U.S.\$26bn may be expected. The online European travel market could reach U.S.\$31bn by 2006. (Source: Trends in European Internet Distribution of Travel and Tourism Services – Centre for Regional and Tourism Research (CRT.dk))
- While sales by internet travel agents such as Expedia and Travelocity are increasing, suppliers own Web sites are capturing the majority of online leisure travel market. In 2004 they accounted for 56 percent of the market and are expected to increase this to 60 percent by 2009. (Source: JupiterResearch)
- Recent research by Mintel highlights that half of business travelers booked their hotel online.

As seen in 2004, hoteliers are responding to the growth of the internet and the increasing presence of third party online intermediaries. Hoteliers are enticing consumers to book via direct channels but in particular, the hotel Web site. The number of price guarantees on hotel Web sites has considerably increased and is a prominent message on the home page of many branded hotel groups. However, hoteliers are recognizing that online agents are an important component of their distribution strategy.



Hoteliers cannot afford to be complacent and need to keep abreast of developments in the fast-moving online market.

The balance of power seems to be shifting and increasingly it is the hotels that are setting the rules and not the agents. Hotels, with improving economic conditions and financial results, are no longer trying to shift distressed stock and are in a stronger position to negotiate with online agents. The large hotel brands are in a powerful position as agents need their inventory just as much as hoteliers need agents to shift a perishable product. Those not willing to comply are, in some cases, being abandoned e.g. IHG pulled its entire inventory from Expedia and hotels.com. Conversely, alliances are being formed between brands and preferred online players that are willing to sign up to the hotels' code of practice e.g. Hilton and Lastminute.com.

Hoteliers cannot afford to be complacent and need to keep abreast of developments in the fast-moving online market. Along with consolidation of key players and vertical integration, new products (such as dynamic packaging) and new sites are regularly being introduced. The emergence of comparison shopping Web sites, such as kayak.com and cheapaccommodation.com, which search hundreds of Web sites to try to identify the best deal, may again alter the dynamics of the online market. Search engines such as Google may have an increasingly important role to play. The online players themselves are refining their distribution strategies and they are developing their services to the corporate market as well expanding to emerging markets such as Eastern Europe.

Over the past six years, KPMG in the U.K. has conducted an annual survey of hotels to monitor the development of corporate online bookings and pricing across the distribution channels. Last year the survey was extended to include hotels around the world including North America, Europe, Asia, South Africa and Australasia. This year we have added more countries to the global survey including Russia, Austria and Dubai.

The survey reviews hotel room rates offered to customers across the core direct and indirect distribution channels i.e., direct call to the hotel, hotel Web site, hotel central reservation, online intermediaries and corporate agents. The survey also aims to identify the key distribution trends emerging across each region and to determine the distribution strategies currently adopted.

Key survey findings

The key findings of the 2005 global distribution survey are detailed below.

Cheapest channel to book a room

- Booking via an online intermediary agent resulted in the cheapest price in 36 percent of cases (35 percent in 2004), although this varied between regions.
- When contacting hotels, you are more likely to obtain the cheapest deal via the hotel Web site in 45 percent of cases (compared to CRS and calling the hotel direct).
- Overall, there is a 55 percent chance of finding the lowest room price online rather than through traditional channels.
- A corporate traveler in the U.S. and Canada is likely to obtain beneficial rates by contacting a corporate travel agent.
- For Eastern and Western Europe, including the U.K., it is more likely that the online intermediary sites will offer the best deals.

Pricing across channels

- Hotels are not pricing inventory consistently over all distribution channels. Only one percent of cases showed consistent pricing across direct and indirect channels (two percent in 2004).
- 17 percent of prices were consistent for direct hotel channels which is a marginal improvement on last year (15 percent in 2004).
- The variance in room rates across all channels as a percentage of the lowest rate available has improved and was 30 percent in 2005 (50 percent in 2004).
- The U.S. continued to display the smallest price differentials between channels at 21 percent.

Incentives and conditions of booking

- Some 43 percent of hotel groups surveyed advertised best Web rate guarantees on their Web sites which is an increase of over 40 percent on last year (30 percent in 2004).
- Of the hotels displaying price guarantees, only 27 percent delivered on their promise.
- 97 percent of hotels surveyed attached a cancellation policy to the booking.
- Other incentives offered by hotels to book with direct channels include bonus loyalty points, discounted use of business centre and meeting room and free internet usage.

Detailed survey findings

Cheaper hotel room rates were quoted by indirect channels in 58 percent of cases.



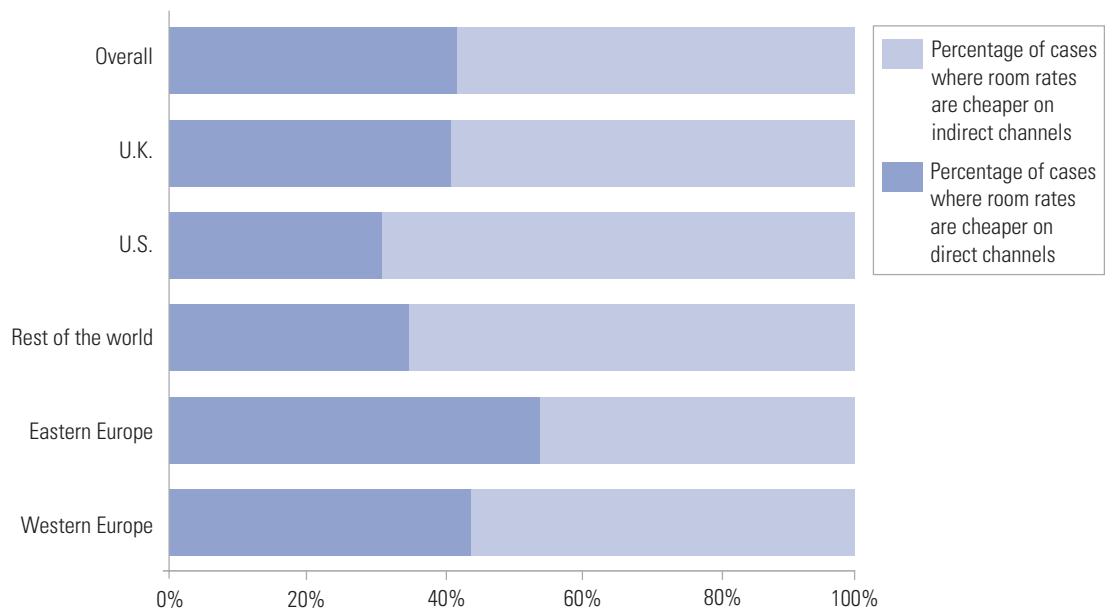
What is the cheapest channel to book a room?

Our global survey identified that cheaper hotel room rates were quoted by indirect channels in 58 percent of cases, i.e., online agents or corporate travel agents as opposed to hotel direct channels. From the perspective of hoteliers, this is a marginal improvement on 2004 (60 percent of cases).

This result is surprising considering the amount of effort being made by hoteliers to direct consumers to their own channels, in particular the hotel Web site. In practice, hoteliers are still not delivering best rate guarantees and cheaper quotes are offered by third parties. Customers may therefore continue to use indirect channels until they are confident that price guarantees are being delivered.

The regional variations in channel pricing are illustrated in the following graph:

Comparison of pricing between direct and indirect channels



Source: KPMG International, Global Hotel Distribution Survey 2005.

As we predicted in last year's survey, the more immature markets are beginning to feel the effect of the emergence of competition from the online world. These regions show a greater proportion of cheaper rates being offered via indirect channels compared to last year.

Booking via an online agent resulted in the cheapest price in 36 percent of cases.

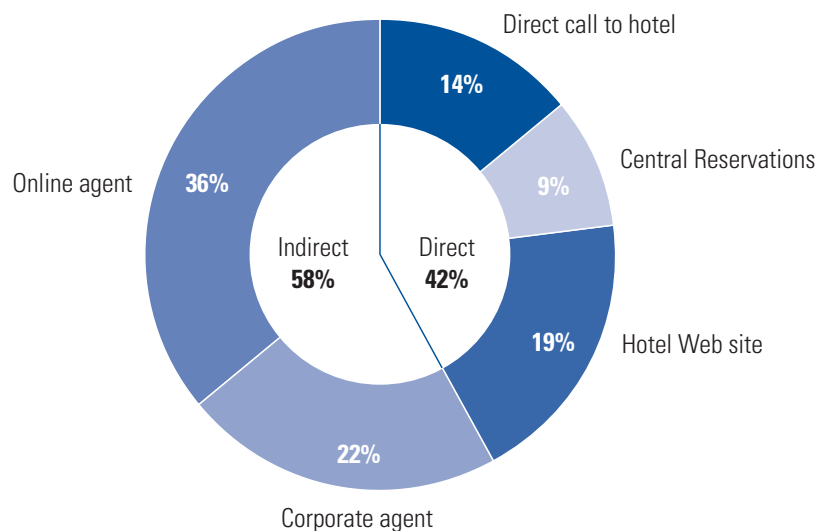
There has been an improvement in the U.K. and Western Europe as hoteliers are encouraging and incentivizing consumers to book directly with them. Price promises and internet only offers have become a standard feature for the branded hotel groups although booking conditions increasingly are attached to these offers e.g., cancellation policy and payment guarantees.

One unexpected survey result was the increasing shift by the U.S. (and to a lesser extent Canada) to offering cheaper rates via indirect channels. This is mainly associated with the corporate travel agents who are offering specially negotiated corporate prices (explored in more detail later in the survey).

As discussed in last year's survey, one reason for some regions having a higher level of lower priced bookings via direct channels, e.g., Eastern Europe, is the relative lack of online travel sites or representation although we have seen the third party offering increase in both branded sites such as Expedia and independent local market focused sites. However, there is potential for further growth of online agents in regions such as South Africa and Russia.

The survey examined the relationship between direct and indirect channels in more detail and found that, overall, the corporate traveler is more likely to find the cheapest room by searching online intermediary sites e.g., travel and specialist hotel Internet sites. In 36 percent of cases booking via an online intermediary agent resulted in the cheapest price, a marginal increase on 2004 result of 35 percent. However, there has been a three percent improvement of the hotel Web site channel to 19 percent which is evidence that hotels are beginning to reap the reward from their marketing efforts. In overall terms, there is a 55 percent chance of finding the lowest room price online rather than through traditional channels.

Cheapest distribution channel for hotel room bookings

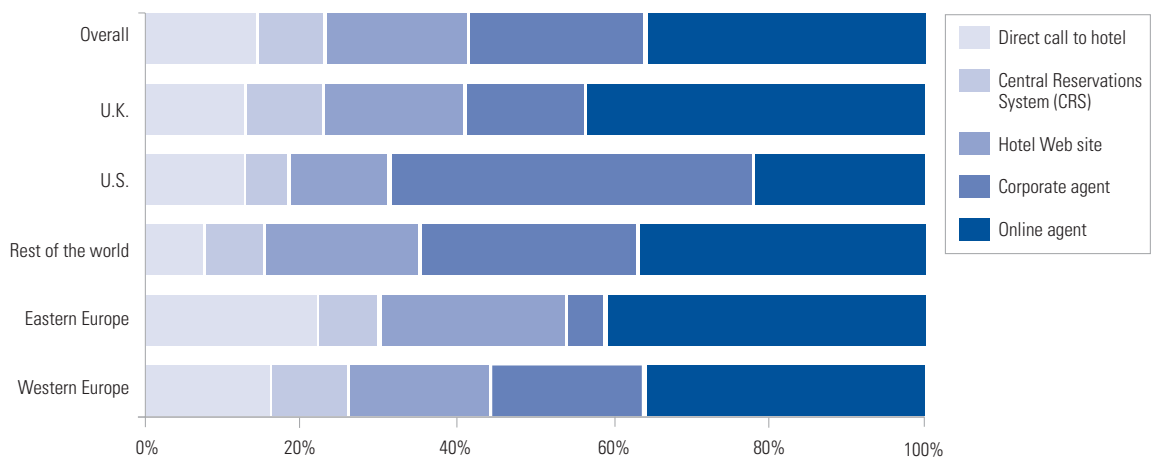


Source: KPMG International, Global Hotel Distribution Survey 2005.

Regional variations in pricing

Corporate travelers that conduct their business globally are more likely to obtain the cheapest rate by using different booking methods according to the region/country. Hotels in the mature online environments including the U.K. and Western Europe face competition from a large selection of third party travel sites such as Expedia, Travelocity and late deal sites such as Lastminute.com. In the U.S., there are also a high number of discounted travel sites, however, hoteliers are tending to release negotiated rates to corporate travel agents as opposed to online agents.

Cheapest distribution channel for hotel room booking by channel



Source: KPMG International, Global Hotel Distribution Survey 2005.

The importance of the corporate travel agent in the U.S. is evident from the graph above. As expected with a mature market, the online agents do have a role to play in offering cheap rates, however this is not the dominant channel for distributing rates, notably so for the U.S. where only 22 percent of cheapest rates were offered via online agents.

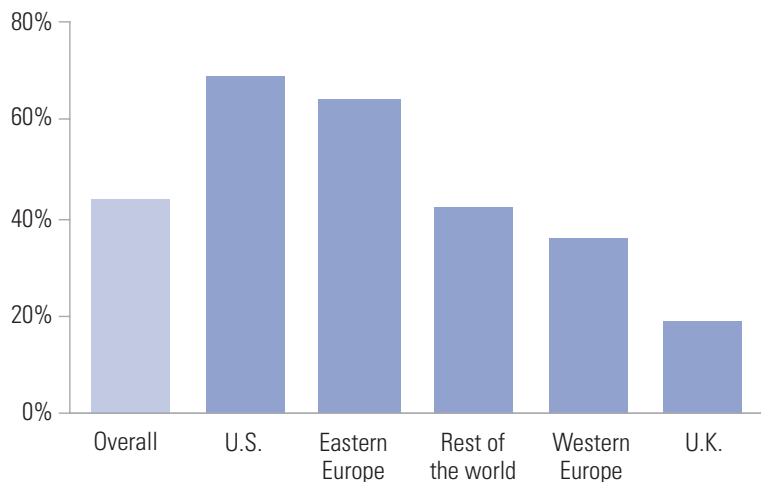
Of the hotels displaying best rate guarantees, only 27 percent delivered on their promise.

Best rate guarantees — a marketing ploy or genuine intention?

We have seen a significant increase in best rate guarantees. Approximately 43 percent of hotel groups surveyed advertised best Web rate guarantees on their sites which is an increase of over 40 percent on last year. However, when we investigated whether hotels are delivering on these price guarantees, the situation has not improved since last year with only 27 percent delivering on their best rate promises.

The extent of price guarantees varied significantly depending on the region. 68 percent of hotels sampled in the U.S. offered best rate guarantees. Surprisingly only 19 percent of U.K. hotels offered prominent best rate guarantees on hotel Web sites. A high proportion of Eastern European hotels displayed best rate guarantees as illustrated in the graph below.

Percentage of hotels offering best Web rate guarantees



Source: KPMG International, Global Hotel Distribution Survey 2005.

The conditions of booking across direct hotel bookings were also considered this year including cancellation policy and payment guarantees. 97 percent of hotels surveyed attached a cancellation policy to the booking. The majority of bookings also required a credit card guarantee although in most cases a deposit was not required.

Other incentives offered to entice consumers to book directly with hotels included:

- Bonus loyalty reward points e.g., triple points
- Free parking
- Discounted use of business centre
- Access to spa
- Free Internet (approximately 24 percent of cases)
- Free in-room printing
- Room rate quoted included breakfast (approximately 32 percent of cases)

The U.S. continued to display the smallest price variance between channels this year.

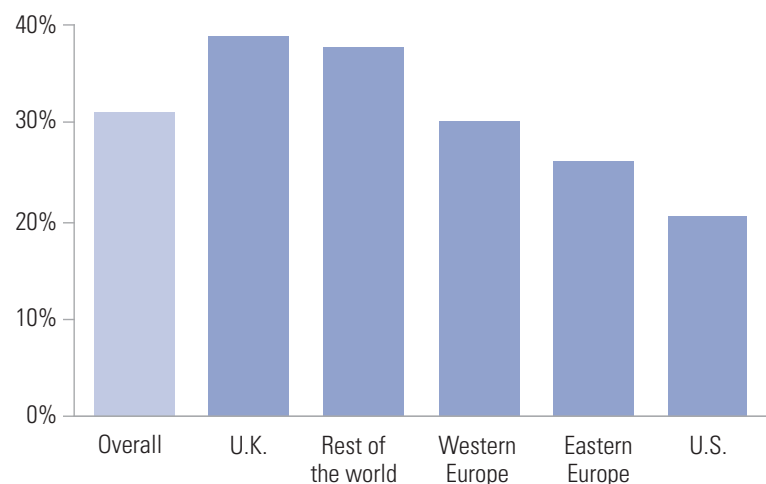
Pricing variations across channels

Pricing variation has improved considerably compared to last year's survey

The variance in room rate across all channels as a percentage of the lowest rate available was 30 percent in 2005, compared to over 50 percent in 2004.

The U.S. continued to display the smallest price differentials between channels at 21 percent as indicated in the graph below.

Average percent price variance across all channels



Source: KPMG International, Global Hotel Distribution Survey 2005.

17 percent of rates were consistent across hotel channels compared to 15 percent last year.

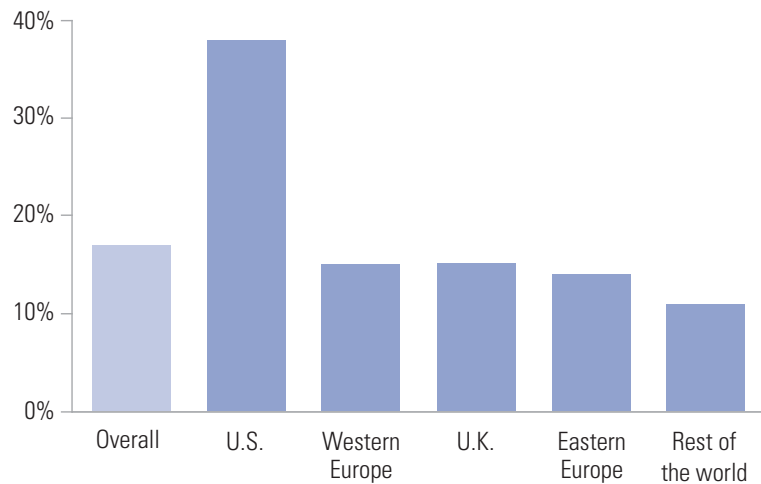
This finding suggests that the U.S., with more maturity in online pricing and improving hotel demand, has greater control over pricing inventory across both direct and indirect channels. However, the emerging regions also performed well especially Eastern Europe with an overall variance of 26 percent.

Pricing consistency over distribution channels

Room rates were consistently priced across all five direct and indirect channels in only one percent of cases compared to two percent in 2004. Germany performed the best with 13 percent of German hotels sampled displaying pricing integrity across all channels i.e., direct and indirect.

There was an improvement in the level of consistency displayed across hotel managed channels and 17 percent of rates were consistent across hotel channels compared to 15 percent last year.

Price consistency across direct distribution channels



Source: KPMG International, Global Hotel Distribution Survey 2005.

Hilton displayed the greatest price consistency across direct channels followed by Marriott.

Hoteliers in Australia displayed the greatest consistency across direct channels with 40 percent of hotels surveyed showing consistent pricing followed by U.S. at 38 percent. Some countries provided no evidence that prices were being managed across channels (Czech Republic, Canada, Singapore and Netherlands).

Our survey found that Hilton displayed the greatest consistency among the major brands with 44 percent of transactions consistently priced across direct channels followed by Marriott at 42 percent. This is the second year that Marriott has featured in the top brand performers in terms of price consistency, however the percentage achieved this year has fallen from 63 percent consistency in 2004. Radisson and Le Meridien also performed well this year achieving 38 percent and 33 percent respectively.

Agents offered a range of prices for the same hotel room.

Performance of online agents

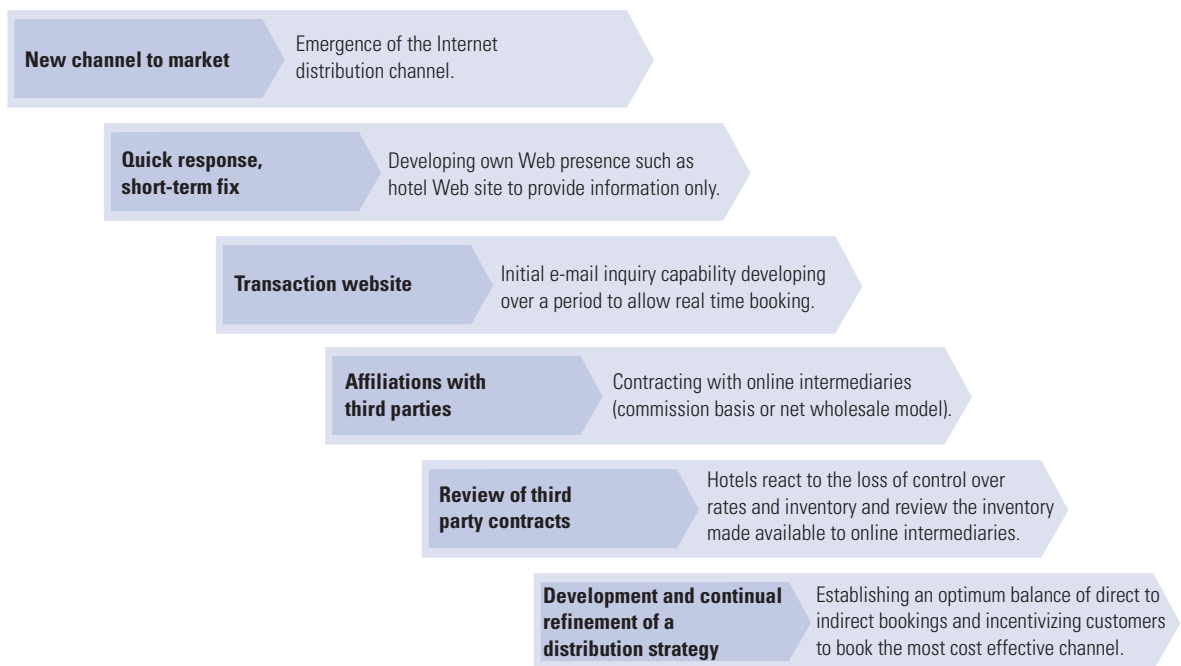
The survey highlighted some interesting trends relating to online agents. The large online agents such as Expedia and Travelocity have increased their coverage to the emerging regions such as Eastern Europe. We also noted a number of new local travel Web sites that serve the local market place. However, some countries such as South Africa have limited online agent representation.

We noted a range of prices offered by agents for the same hotel room and, overall, there was a 35 percent price variance between online agents (based on the lowest price offered). Broadly, the late deal sites offered the best rates e.g., Lastminute.com although these sites did not perform so well in terms of representation of corporate hotels in a destination.

Online travel shopping sites are starting to emerge. These sites search hundreds of Web sites to try to identify the best deal (both supplier and agent sites). Some shopping sites are time consuming to use as they direct the consumer to the supplier or agent site to check availability. New sites such as kayak.com have comparatively better functionality and can check availability as well as price thereby greatly reducing the time to complete a booking. These sites are still relatively new and are not available in all regions (e.g., kayak.com is only available in the U.S. although there are plans to extend to Europe).

Maturity of online distribution

KPMG's network has monitored trends in online distribution over the last six years and there appears to be a number of clear stages that occur as outlined below.



Source: KPMG International, Global Hotel Distribution Survey 2005.

The emerging regions performed particularly well in the survey this year – they have taken positive steps to manage distribution.

We have analyzed the survey results to understand the positioning of each region in terms of distribution performance. We allocated a weighting based on results of key performance criteria i.e., price consistency, variation, control of direct channels and booking incentives/conditions. Based on this scoring the top performers this year were: Australia, Hungary, Czech Republic and U.S. However, as highlighted in last year's survey, these countries are at differing stages of distribution maturity. The emerging countries are setting up first-time affiliations with the online agents as the competitive landscape continues to grow, whereas the mature countries are refining their distribution strategies and reviewing their alliances with online agents.

One interesting finding from the survey is the pace of change within the emerging markets. These regions seem to be addressing the issues experienced by the U.S. and U.K. and have taken positive steps to control distribution e.g., develop a distribution strategy, appoint a dedicated distribution manager, train staff in channel management. Surprisingly, the U.K. did not perform well in the survey this year and still allows a high proportion of cheaper rates to online agents (44 percent of cases).

Conclusion



The survey has further identified some interesting trends in distribution management this year and remains one of the key issues for hotel groups.

The survey shows that hotel groups are refining their distribution strategies and are encouraging consumers to book directly with them, preferably via the hotel Web site. In practice, the consumer is still enticed to book via online agents due to favorable pricing and the convenience of booking other travel requirements i.e., flights, car hire, etc. One hotel group has responded by offering dynamic packaging capabilities on the hotel Web site i.e., book hotel and flights, etc. although it is currently new in the market place.

The online agents are continuing their expansion across the globe although some regions are still under-represented e.g., South Africa. The online sites are facing particularly challenging times with the hotel groups refusing to do business with agents that are not complying with their rules but are aligning themselves with a small number of online agents that are willing to work with their codes of practice.

Other sites are emerging and should add a new dimension to consumers searching on the internet for the best rate. Sites such as kayak.com search the internet (both suppliers and agents) for the best deal based on the booking parameters set by the consumer. This is particularly appealing to the corporate traveler who has limited time to conduct internet searches.

The hotel groups in mature regions are beginning to deliver cheap rates via direct channels. There are exceptions where some hotel groups are not delivering a consistent message to consumers or are intentionally differentiating prices according to their pricing strategies. Hoteliers may argue that there are conditions attached to some discounted rate offerings but we doubt that consumers positively differentiate on that basis. Encouragingly, the emerging countries seem to be taking positive steps in controlling distribution and performed well in this year's survey.

The economic climate and strong accommodation demand has contributed to hoteliers refining their distribution management strategies both in terms of working with third parties and promoting direct channels. As seen in 2005, the pendulum of power is shifting back to hoteliers. However, will the emergence of new consumer search sites such as kayak.com shift the power base back again in 2006?

Methodology

The survey was conducted with over 330 hotels across 16 countries worldwide during February 2005 and using KPMG's global network of member firms.

A room rate inquiry was made with a two-day booking lead time for a mid-week night (e.g., inquiry made on a Tuesday for a booking on a Thursday). The price of a single standard room was sought via:

- calling the hotel direct
- calling the central reservation office
- hotel Web site
- corporate travel agencies
- Web sites of online intermediaries

The survey was undertaken from the viewpoint of an independent corporate traveler and all evidence and analysis pertains to a front-end Web site assessment.

For the purposes of the survey, the regions are defined as follows:
Western Europe (excluding U.K.): Austria, France, Germany, Italy, Netherlands, Spain.

Eastern Europe: Hungary, Czech Republic, Russia.

Rest of world: Australia, U.A.E., South Africa, Canada.

The U.K. and U.S. are shown separately due to the relative maturity of the online market.

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