

**Deloitte.**

# The Hotel Cooperation

Deloitte's vision on challenges in  
the hotel business



# The Hotel Cooperation

**Over the last two decades Online Travel Agents (OTAs) have transformed the hospitality industry. With Google recently becoming an OTA this transformation is far from over.**

Companies such as Booking.com and Expedia were the first disruptors. They were followed by private accommodation-sharing website Airbnb, which entered the market in 2008, and online specialist in daily travel offers TravelBird in 2010. Airbnb thrives on the sharing economy and saw over 10 million bookings in one of their 800,000 listed homes worldwide in 2014. One stop shop TravelBird aims to simplify the decision making process for travelers and in just 5 years' time 2.5 million travellers travelled with TravelBird. Recently Google joined the OTA market by providing customers with the opportunity to book rooms within the Google environment and pay with the Google wallet. Although mainly the OTAs have a significant impact on the results of the hotel industry there are also signs the sharing economy is starting to having an effect too.

This article sets out Deloitte's vision on the impact of these new entrants on the sector, defines potential actions to be taken based on interviews with experts from the hospitality industry and describes why Deloitte believes hotels should start their own cooperation and start experimenting with the Lean Startup method.

## **The success story of new entrants**

New entrants thank their market share to three factors: first mover advantage, access and customer experience. First, in the second half of the '90s due to a decline in bookings, hotels grasped every opportunity to increase their number of customers. This resulted in OTAs controlling almost the entire online channel and a rapid increase of their market share. By the time the large, international hotel chains realized how disruptive the OTAs were and the threat they actually posed to the hospitality industry, they were unable to unsubscribe. They had become dependent on the business generated by the OTAs. Second, the major OTAs offer hotel rooms in almost every destination in the world, "access",

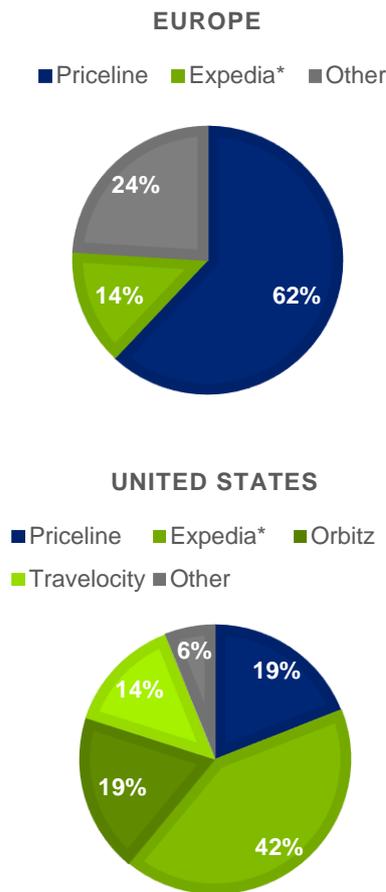
giving them a competitive advantage over hotel chains.

The third important factor was the customer experience being offered on the OTAs website: it is easy to use and customer-oriented. The corporate websites of the hotel chains were – and still are – lagging behind in comparison to the OTAs.

While originally OTAs mainly targeted leisure travel - as business travels are usually booked by contracted travel organizations – currently they are attracting business travel demand as well, increasing their impact on the hospitality industry even more. The growing market share of OTAs has resulted in a decrease of profit margins in the industry. At the same time by making bookings easier, OTAs have provided an opportunity for the industry as the hospitality market has expanded.

Airbnb entered the market with a self-created business model based on the sharing economy trend where people are looking to buy services when they actually need them, instead of owning them. The global sharing economy market was valued at \$26 billion in 2013 and is still growing. It can therefore be concluded that sharing economy firms are disrupting traditional industries around the globe. So did Airbnb as a first mover, providing access to private accommodations all around the world. The strength of their business model revolves around the trust generated by ratings and identity matches with social media, an easy-to-use interface and its scalability. Most important is that Airbnb has the competitive advantage that all systems are centralized. This enables them to analyze results and improve the customer experience instantly. Most hotels are working on the centralization of IT systems now. A number of the large hotel chains are about to complete this phase in the coming one to two years.

**Figure 1: Relative market share (in terms of revenue) of main OTAs in 2013**



Source: HVS, TravelWeekly

\* Expedia bought Orbitz and Travelocity in 2015

## The growing market share of OTAs has resulted in a decrease of profit margins in the industry

In 2010, Dutch start-up TravelBird entered the market and has experienced continuous growth by leveraging a very simple business model consisting of offering every day 6 new holiday packages and several holiday offers in themed categories (city trips, sun and family). It offers entire trips, including (multiple) hotels, airplane tickets and it may even include dinner, activities such as musea or guided tours. The key differentiating aspect of TravelBird's offering is giving inspiration to travellers who don't know exactly where to go with as a result a customer experience focused on inspiration and simplicity. This builds on the point of view that customers do

not want the great amount of choices that traditional travel agencies offer. Instead customers want to be inspired and book holidays in a few simple steps, so they are able to fully focus on enjoying their vacation. The main focus of TravelBird is on leisure travel, business-to-consumers, and is therefore not seen as a big threat for hotels at this stage.

### Lean Startup Method

The impressive growth over the course of only a few years of new entrants was also influenced by an additional factor. Booking, Airbnb, TravelBird all used the Lean Startup method to strengthen their businesses.

Before Airbnb existed, the founders started by creating a Minimum Viable Product (MVP) to test their ideas. When a conference was being held in San Francisco and most hotels were booked, the founders put pictures of their own apartment in San Francisco on their website and invited people to stay over. It was soon rented out. Apparently people were willing to pay for a place to stay with air mattresses and home-made breakfasts. This MVP helped validate the market and proved that people were willing to buy the service. This has resulted in a company with estimated revenues of \$423 million in 2014.

In addition, Airbnb uses A/B split testing to learn and make decisions throughout the product development process. This is an experiment where customers are offered different versions of a product at the same time. The reasoning behind A/B split testing is that the isolated impact of the product change can be measured by controlling for external factors. Airbnb has used this method to test different formats of price filters and website designs to see which ones generate the highest number of bookings. For example, it has turned out that showing current landlords encourages other people to rent out their apartment and by promoting the verification of photos that are put their website, Airbnb reduces customers' fear of renting an apartment that is not as good as it looks on the pictures.

### New entrants viewed by Hotel chains

According to experts in the hospitality industry hotel chains support the arrival of new entrants. Despite the history of OTAs entering the market and taking control over a part of their inventory, newcomers generate more travel for the industry. Furthermore newcomers tend to focus more on leisure travellers instead of business travellers and therefore are less of a threat to business focused

hotel groups. Nevertheless innovation is important for the hotels, especially since they generally lag behind. For hotel chains it is important to urge the value of the brand by defending their value proposition.

---

## Hotels should join forces, introduce a cooperation and launch a reservation platform

Research conducted by Crédit Suisse in New York City has shown that hotel operators have started to cite emerging companies like Airbnb more often as putting pressure on hotel room prices, although especially at smaller boutique locations. Hotel experts believe new entrants like Airbnb and Wimdu have limited to no impact on hotels' occupancy or RevPAR. It is more likely that hostels and hotels at the lower end are impacted by their introduction. One of the hotel experts mentioned: "People making reservations at Airbnb are looking for a specific experience for a specific occasion (holidays), therefore I see no threat to our hotel chain. Their competitive advantage is that they are flexible and can apply data analytics through their central system. While hotel chains collect most of their customer intelligence through surveys and only high level data online spread over different systems, new entrants experiment on a daily basis to improve their products and services."

High cost for change and risk conscious behavior restrain hotel chains from innovation, though there is a great deal of innovation in place. A number of hotel chains monitor the startup market and have cooperation's to drive innovation at a low cost. For example Starwood started a cooperation with Savioke, robot butlers.

Most important for hotels is to defend their value proposition. With the entry of OTAs and review sites such as Tripadvisor the brand of hotels has decreased in value. The customer has become smarter and understands there are differences across the globe despite staying at the same hotel brand. Review sites provide the crucial input for a customer on where to stay, no longer the hotel brand. Also the hotel booking channel has lost its value due to a wider reach of the OTAs, which also offer a better customer experience. Therefore hotel chains are working on building a stronger brand and offering exclusive customer experiences by booking direct. This is a

competitive advantage that newcomers like Airbnb and TravelBird cannot offer.

### Point of view of Deloitte

With the rapid pace of emerging technologies the hotel industry has a number of challenges. At the moment the largest challenge is to deal with the increasing power of the OTAs. Especially now that mighty Google entered the market. Furthermore the consolidation of OTAs increases their bargain power and can put hotels under even more pressure.

This is the moment for hotels to react, combine forces and launch a jointly owned online reservation platform. The same way cooperation's were introduced in other markets where the consolidators owned the market and the suppliers were fragmented. Hotels should move away from their dependency on OTAs despite the ensuing costs and efforts. This dependency enables the OTAs to effectively set fee levels herewith negatively impacting hotel margins. The CFO of Expedia announced earlier this year their global plan to acquire, invest, and consolidate. With the acquisitions of Travelocity and Orbitz Expedia has shown to be serious. The acquisition of Orbitz will provide Expedia with a market share of more than 70% of OTA bookings in the US according to Forbes. By setting up a cooperation for individual hotels and hotel chains which are able to offer scale, fees can be controlled by the cooperation i.e. the hotel owners. This in our view can offer hotels an alternative way of competing in the current industry environment.

While capabilities have been fully focused on running smooth operations, it now becomes time for hotels to invest more in innovation, investigate alternative strategic directions and ensure differentiation through brand and customer experience. Although differentiation amongst hotels is a zero sum game, it is important to defend the business from new entrants like Airbnb. The Lean Startup method should enable every hotel chain to create innovate exclusive products and services on a low cost basis. Not only will the Lean Startup help making the right decisions, resulting in a distinguished customer experiences, but far more important it will leave companies better prepared for the fast approaching future.

It takes courage to experiment with different products and services while keeping in mind the bigger picture but market conditions require it. One way of doing so is by creating partnerships. Cooperating with and monitoring developments of startups is a great way forward. One good

example of such cooperation is the partnership between Starwood and Savioke, a California startup backed by Google Ventures. They started an experiment with the Botlr, a robot butler.

The hotel business is changing at an increasing rate and hotels need to pick up the pace. Hotels have to become more innovative in order to regain profitability. Starting a cooperation amongst hotels, embracing the Lean Startup method and starting partnerships with startups are effective ways to do so.

# Acknowledgements

We would like to thank the following people who gave us time to interview them after our preliminary research, and who provided us with their comments and thoughts:

**Mrs. M. van der Stelt**

**VP Brand Operations, Communication,  
Quality and Planet 21, Accor Hotels**

**Mr. J. Nielsen**

**Area Manager France, Monaco, Nordics &  
Baltics, Starwood**

**Mr. E. Buursink**

**General Manager, Hilton**

**Mr. J. Valster**

**Country Manager Netherlands, TravelBird**

**Mr. M. Marcus**

**Managing Director Benelux, France, UK, USA  
& Africa, NH Hotels**

# About us

Deloitte is one of the world's leading professional services organisations with more than 169,000 people in over 140 countries worldwide. Deloitte's strategy consulting practices serves the world's largest multinationals, as well as large national enterprises, public institutions, and successful global growth companies.

Our leading strategists bring deep sector knowledge along with the experience and methods to structure effective corporate and business unit strategies. We work with multiple specialty strategy services within Deloitte and with audit, financial advisory, risk management and tax services of Deloitte LLP through its network of member firms to bring effective and targeted resources to our strategy engagements. We provide an outstanding service with a focus on creating value for our clients, enabling them to make informed decisions to maximise their opportunities.

Our practice has long standing relationships with all major players in the Tourism, Hospitality and Leisure (THL) industry. Each client relationship is led through a lead client service partner to ensure we provide maximum value to our clients.

## Contact us

For further information about this report, please contact:

**Bram Lentz – Author**  
**Manager, Strategy & Operations**  
+31 6 123 444 93  
blentz@deloitte.nl

**Willem Obermann – Co-author**  
**Director, Strategy & Operations**  
+31 6 131 274 44  
wobermann@deloitte.nl

**Stephanie Brood – Contributor**  
**Business Analyst, Strategy & Operations**  
+31 6 820 122 11  
sbrood@deloitte.nl

# Sources

## Articles

1. Boston University, 'The Rise of the Sharing Economy: Estimating the Impact of Airbnb on the Hotel Industry'
2. Deloitte, 'Deloitte Hospitality 2015'
3. Forbes, 'These Two Scenarios Might Significantly Expand Expedia's Valuation'
4. Hotrec, 'European Hotel Distribution Study: The Rise of Online Intermediaries'
5. HR&A, 'HR&A Study of Airbnb Economic Impacts Receives International Recognition'
6. IAmsterdam, 'Amsterdam start-up TravelBird grows exponentially'
7. Inc., 'Airbnb Is Inc.'s 2014 Company of the Year'
8. Quartz, 'New York City hotel rooms are getting cheaper thanks to Airbnb'
9. Tnooz, 'Booking.com is thrashing Expedia in Europe, says survey'
10. Tnooz, 'Expedia CFO's global plan: acquire, invest, and consolidate'
11. World Travel Market, '2014 industry report'
12. HVS, 'OTAs – A Hotel's Friend or Foe?'
13. TravelWeekly, 'With Orbitz buy, Expedia to become world's largest OTA'
14. Hospitality management, 'BREAKING NEWS: Google wordt een OTA!'

## Other

15. Capital IQ
16. Company websites
17. Expert interviews
18. Eric Ries, The Lean Startup

## Appendix 1: Company profiles

### **Booking.com – Profile**

Booking.com was founded in Amsterdam in 1996. It started with only ten listed hotels, situated in the Netherlands. In 2005, it was acquired by The Priceline Group and merged with ActiveHotels.com bought by Priceline in 2004. Together these companies cost Priceline \$300 million. As Booking.com generated a net profit of almost \$1.3 billion in 2013, these acquisitions are considered (one of) the best in internet history.

The Priceline Group has spent over \$1.5 billion on Google online advertising in 2014 - making it one of Google's biggest customers - and executed the 'traditional' advertising campaign booking.yeah. This can be considered one of the drivers of the over 250 million bookings made on Booking.com in 2014. A commission of 15-30% is charged to hotels and the percentage of the commission determines where the hotel will be listed. Assuming that the average rate for an overnight stay is higher than \$100, the booking.com revenue is over \$4 billion.

Currently, Booking.com is the number one online travel agency in the world. Over 600,000 properties in more than 200 countries are listed on the website. This large number enables Booking.com to offer a wide variety of hotels at many travel destinations. Their market share in Europe in 2013 is estimated at 47%. As approximately 20% of hotel bookings is done via OTAs this means that almost 10% of bookings made in Europe are done by Booking.com.

### **TravelBird – profile**

TravelBird is an online travel provider that offers 6 inspirational holiday offers each day and offers in thematic categories. The company owes its success to a simple formula: inspire customers with the best travel deals together with a hassle-free process. Founded in Amsterdam in 2010, TravelBird currently has around 600 employees and is active in 17 countries. Every day more than 19.000 travellers are enjoying their holiday with TravelBird and to date more than 2.5 million people have travelled to destinations all around the world.

In 2014 the company almost tripled its booking turnover from 37 million euros in 2013 to 95 million euros in 2014.

### **Airbnb – profile**

The idea of Airbnb started in 2007 and the company was founded in 2008. Currently, over a

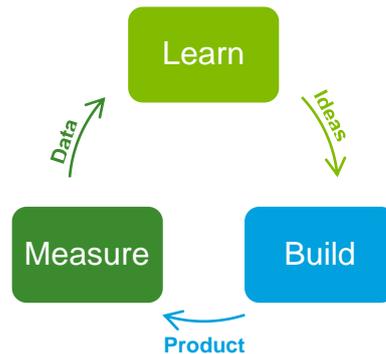
million distinct locations in 190 different countries are offered. More than 20 million people have used Airbnb as tourist or for business.

The market value of Airbnb is estimated at \$13 billion and continuous to grow. The revenue generated in 2013 is estimated at \$360 million and expected to increase to over a \$1 billion in 2015. Revenue is generated by a 3% commission on the rental income and a 6-12% commission paid by the guest involved. In return, Airbnb offers customer support, payment handling and a \$1 million insurance for landlords.

## Appendix 2: Ries' Lean Startup Method

In the Lean Startup theory, a company is thought of as a portfolio of tests, with customers holding the key to the future of every business. The most important guarantee for long term success is early and quick experimentation. Ries states that success comes to the companies that are the best and fastest at validating their critical hypotheses and course correcting accordingly.

Figure 2: Lean Startup workflow



Source: The Lean Startup, Eric Ries, 2011

The theory rests on a 5-step process:

1. **Minimum Viable Product (MVP):** the version of a new product which allows a team to collect the maximum amount of validated learning about customers with the least effort. The goal of an MVP is to test fundamental business hypotheses and to begin the learning process as quickly as possible
2. **Actionable metrics:** metrics leading to informed business decisions and subsequent action. They should reflect the key drivers of a business
3. **A/B split testing:** an experiment in which different versions of a product are offered to customers at the same time. The purpose is to observe changes in behavior between the two groups and to measure the impact of each version on the actionable metrics
4. **Continuous deployment:** the process whereby anything pertinent to the business is immediately deployed into production
5. **Pivot:** a structured course correction designed to test a new fundamental hypothesis about the product, strategy and engine of growth

Deloitte refers to one or more of Deloitte Touche Tohmatsu Limited, a UK private company limited by guarantee (“DTTL”), its network of member firms, and their related entities. DTTL and each of its member firms are legally separate and independent entities. DTTL (also referred to as “Deloitte Global”) does not provide services to clients. Please see [www.deloitte.nl/about](http://www.deloitte.nl/about) for a more detailed description of DTTL and its member firms.

Deloitte provides audit, consulting, financial advisory, risk management, tax and related services to public and private clients spanning multiple industries. With a globally connected network of member firms in more than 150 countries and territories, Deloitte brings world-class capabilities and high-quality service to clients, delivering the insights they need to address their most complex business challenges. Deloitte’s more than 220,000 professionals are committed to making an impact that matters.

This communication contains general information only, and none of Deloitte Touche Tohmatsu Limited, its member firms, or their related entities (collectively, the “Deloitte network”) is, by means of this communication, rendering professional advice or services. No entity in the Deloitte network shall be responsible for any loss whatsoever sustained by any person who relies on this communication.