

POST by Dorian Harris – Skoosh.com Per Booking Blog – luglio 2013

I am a regular reader of your blog here and find it a useful gauge of the Italian hotelier sentiment towards rate parity. I have read arguments both in favour of rate parity and against it, the benefits to hotel and the benefits to the consumer. What I never have read is hoteliers explaining how and why O.T.A.s benefit from rate parity. I believe it is this omission which has tied hotels to their O.T.A. partners, perhaps irrevocably.

It is great that you have these open discussions about rate parity but, in reality, it stopped being optional a long time ago. If you want to work with any of the major O.T.A.s, rate parity is an essential requirement. Any attempt to move away from it will land hoteliers with angry calls and emails from their O.T.A. partners and even exclusion from their sites. Even the largest hotel chains have tried and failed to move away from rate parity. So why is it such a big deal to O.T.A.s?

To understand the importance of rate parity to O.T.A.s we need to understand how it fits into their business model and how they grow. Some of their growth comes from clever marketing but the majority of their business growth comes from advertising. Expedia and Booking.com are two of Adwords biggest customers and two of the biggest travel advertisers in the world.

There are two reasons why they can afford to advertise to such levels. One is they have deep pockets through outside investment so they can survive for a long time on small or no profit making them very difficult to compete with. The other is that they can guarantee visitors coming to their site that they have the best prices. You have given them that confidence with rate-parity - something almost no distributor in the world has apart from franchisees. But O.T.A.s are a long way from franchisees.

So they're able to push the cost of online advertising through the roof and force hoteliers out of that space. And, with rate parity, they can push all their smaller competitors out of the advertising space too. All things being equal Skoosh and the like can't compete with big O.T.A.s because we know that few people will book with us over an Expedia when the prices are identical. We don't have the advertising budget to make ourselves a household brand and all the advantages that offers.

You may say you don't need Skoosh because Booking.com and others have that distribution channel sorted. And they do - according to a recent study Booking.com now as 42% of European online sales. The exact numbers don't matter. It's enough to know that Booking.com and the Expedia group of companies together have the majority of the online market and their competitors are few and far between.

And here is where I feel you're walking into a very deliberate trap. The double advantage big O.T.A.s have of funding and rate parity have hampered competition to such an extent you now have very few online distribution channels. Soon you'll have two or three.

And then what? Then these O.T.A.s can ask you for anything they likes because they know you have no alternatives. This may be some crazy new contract clause like stopping a hotel marketing direct to its customers at lower than B.A.R. rates. Or it may be a new and increasingly unfair commission structure which you can't refuse because they've got the market divided between them.

Here's where rate parity comes back to bite you yet again. Rate parity ensures that because Expedia nor Booking.com can't compete with each other on price all they can do to increase their market share is spend more money on advertising. Your money.

What should really be happening in an ideal world (one without rate parity!) is that the major O.T.A.s would be eating into their own margins to grow their market share. Yes, that means they have the possibility to undercut your own rate but would you care about that if your commissions with your distributors were much lower? Your net profit would be better. And without rate parity, if you do want direct business from customers you can lower your own prices and raise your distributors prices simultaneously to get the right balance.

Without rate parity hotels are back in control of their business which is, of course, how it should be. I welcome your thoughts.