

2012 Internet Marketing & Strategy Brief

We have many clients over the past years who have expressed continued fears concerning the effect of the economy on their revenues, and they wonder what's to come in the year ahead. They ask us if they should cut their marketing budgets to save costs, if they should stop media buys, if they should wait awhile before redesigning their 5-year old website. They ask whether they can afford to spend their dollars on search engine marketing, and if they should lower their prices to match the hotel across the street.

The answer is that hoteliers MUST continue with their online marketing efforts, and that they cannot afford to cut their online marketing spend if they want to remain competitive in the marketplace. Since the start of the year, Website Internet Marketing has been saying that it is more important now than ever to take on a ROI-focused marketing approach. This is the time to stick to proven marketing tactics! However, this is also the time to take a hard look at what you are doing: are you taking chances with new and unproven marketing formats? The information in this marketing brief will help keep you on track in 2012.

2012 Action Plan below and we welcome your questions and comments.

1. The Internet: The Ultimate Survival Tool for Hoteliers in 2012

Even with an expected decline in travel demand due primarily to the current economic environment, online travel bookings in 2012 are projected to grow by 10.5% and reach \$121.1 Billion (eMarketer), primarily as a result of the dramatic shift from the offline to online channel.

Here at Website Internet Marketing, we firmly believe that a comprehensive ROI-focused Internet Marketing strategy is the hoteliers' perfect survival tool in the current economic environment. In the difficult year we expect 2012 to be, Internet marketing can help smart hoteliers generate incremental revenues, improve marketing ROIs, attract more affluent travelers and out-smart the competitors. For the past 16 years, our experience shows that Internet-savvy hoteliers with robust Direct Online Channel strategies are the winners in economic downturns like this one.

2. Critical Trends to Consider in Your 2012 Internet Marketing Strategy

The Hotel's overall competitiveness today is determined to a great extent by how well it manages its Internet marketing and distribution efforts. In 2012, more than 55% of all travel bookings and up to 40% of all hotel bookings in North America will be generated from the Internet (eMarketer), which represents a 10-12% growth over 2011. Another 25-30% of hotel bookings will be directly influenced by online research, but booked offline. By 2013 the Internet will contribute over 47% of all bookings in North America.

The negative impact online Travel Agencies (OTAs), also referred to as third-party online intermediaries or TPAs, is expected to increase in 2012 to a moderate increase in travel consumer demand and higher amounts of unsold hotel inventory.

The ratio between the direct and indirect online channel will continue to improve in favor of the direct channel, from 52:48 back in 2002 to 60:40 in 2007 and is projected to be 64:36 in 2011. Some major brands already enjoy a healthy 85:15 direct vs. indirect online channel ratio.

- Online vs. Offline Channel. The online channel is definitely the frontrunner. Online bookers are predominantly influenced by online marketing and advertising formats, including online chatter and customer review. Now more than ever, billboards along the highway, hotel print brochures, and other traditional means of advertising should be shifted towards the web. In

2010, a remarkable 68% of hoteliers reported that they would be shifting their budgets from offline to online marketing activities (HeBS 2009 Benchmark Survey).

- Internet vs. GDS; Further erosion of the GDS channel is self evident: Less than 17% of hotel inventory in the US is sold via the GDS today and the number of retail travel agency locations in the US in 2009 has declined to less than 18,000 vs. more than 35,000 in 1996. Most major hotel brands sell more hotel rooms via their brand websites opposed to the GDS.
- Web 2.0 and Social Media: Web 2.0 and consumer-generated media sites continue create a lot of buzz in the industry. Online travelers are increasingly influenced by social media sites and peer reviews like Tripadvisor.
- Direct Online Distribution has become the way to do business on the Web. Greater amounts of room inventory at higher ADRs are being sold direct to consumer via the direct online channel- the hotel's own website. Marketing the hotel online via search engine marketing, email marketing, strategic linking and online sponsorships has to be the main focus of the 2012 hotel marketing budget.
- Channel Cost-Effectiveness and ROI: The shift from more expensive to less expensive distribution channels has become the norm in hospitality. Lessening your dependence on higher cost channels and driving more revenues through your own website should become the main objective of your 2012 marketing budget.

Planning the right marketing budget 2012 requires hoteliers to balance limited funds with marketing strategies that will generate the highest possible returns, so that your hotel website can function as your main revenue-generating channel with the highest ROI.

3. The Online Travel Marketplace

Size of the Market

North America:

The 200 billion travel industry expects \$105.1 billion of online leisure and unmanaged business travel bookings in 2011 (eMarketer). For 2012, online travel bookings are projected to grow by 10.5% and reach \$116.5 Billion.

By 2013, online travel bookings are expected to reach \$128.9 billion (eMarketer).

How significant is Internet distribution in hospitality?

Hospitality: (USA, % of all bookings)

	2007	2008	2009	2010	2011
U.S. Hospitality:	33%	37%	41%	45%	49%

In the US in 2010, over 45% of all bookings in hospitality were generated from the Internet (41% in 2010). Another 25% of all hotel bookings were influenced directly by the Internet (online travel planning and research) but booked offline (phone, groups, meetings and events, walk-ins).

4. Key Customer Segments and the Web

Leisure Travel:

At least 55% will book travel online in 2011 and 60% in 2012. Even with this economy-instigated decline, online travel is expected to increase by least 10% as a result of the shift from the traditional to the online channel.

The Bottom Line:

Leisure Travelers, including family travelers, seniors, romance, special occasion travelers etc., are overwhelmingly using the online channel to research, plan, and book.

Business Travel:

- Over 45% of business travel bookings in North America will be online in 2011.
- Survey: up to 86% of bookings (unmanaged business travel) are performed online (eMarketer).

Preferred Methods Used by US Business Travelers to Book Travel Reservations:

Email	Telephone	Online
3%	8%	57% (eMarketer, September 2010)

The Bottom Line:

Business Travelers prefer to plan and book online, especially the unmanaged business travelers from small and mid-sized companies.

Groups/Meeting:

- 89% of meeting planners research event locations via the web.
- Meetings market projected to grow to \$182 billion by 2011, with travel representing 54% of the total.
- In 2011, 41% of all groups and meetings travel revenue, or \$39 billion, will be booked online.

(PhoCusWright)

- 91% of corporate meeting are for less than 200 participants
- 2/3 are Small Corporate Meetings are for than 50 participants (PhoCusWright,2009)

The Bottom Line:

Many corporate meetings are small in size and are now being planned locally (within the state or neighboring state).

5. What Happened to Traditional Distribution in Hospitality?

GDS Distribution

2011: GDS will contribute less than 14% of all hotel bookings

2011: Internet will account for 42% of all hotel bookings (HeBS, PhoCusWright)

US Travel Agency Retail Locations (U.S. Data):

		% Change
April 2001	29,590	--
April 2002	26,692	-10%
April 2003	23,818	-11%
April 2004	21,787	-9%
July 2005	20,330	-5%
July 2006	19,300	-4%
Sept 2007	18,496	-4
2010	16,750	

(Airline Reporting Corporation, HeBS)

Major Hotel Brand CRS Bookings

For the first time ever, in 2009 the brand websites of the top 30 hotel brands generated more revenues than the GDS. This trend has accelerated in 2010, as illustrated by the following table:

CRS Hotel Bookings	Share of CRS Reservations Q1 2010	Share of CRS Reservations Q1 2009	Grow/Decline
Internet	47.0%	41.8%	20.2%
Brand Websites	37.6%	31.8%	
OTAs	9.36%	10.0%	
GDS Travel Agent	32.2%	34.1%	0.7%
Total Electronic	79.2%	75.9%	11.4%
Voice	20.8%	24.3%	-7.7%
Total for CRSs	100%	100%	6.8%

(eTRAK, 2010)

The Bottom Line:

Rapid growth in the Internet channel, Flat GDS, declining voice channel.

6. Direct Online Channel vs. Indirect Online Channel

In the offline world hoteliers enjoy more direct sales (75% than indirect (agency, intermediary) sales (15% - 20%). In the online world hotels are less aggressive than the airlines in bypassing the third party intermediary and agency channel. This year for example, 62% of online hotel

bookings will direct sales, though some major brands already boast direct vs. indirect ratios of 85:15 (Marriott, Hilton, etc).

Hotel suppliers' online market share is growing as hoteliers are becoming savvy Internet marketers. It will take consistent efforts to maintain and improve the share in the future.

Overall for the industry (USA):

	2003	2005	2007	2008	2010
Hotel Branded Websites:	53%	54%	60%	62%	65%
Intermediary Websites:	47%	46%	40%	38%	35%

(Merrill Lynch, HeBS)

The top 30 hotel brands have become excellent eMarketers. In 2008 the average ratio between direct vs. indirect online CRS sales is expected to remain fairly flat at 80:20 in favor of direct CRS bookings. Here is the breakdown from Q1 2010.

Internet Source Breakdown for Major Hotel Brands

Internet Bookings Q1 2010	Share of Internet CRS Reservations Q1 2010
Brand Sites	80.1%
OTA-Retail Sites	4.6%
OTA-Merchant Sites	9.3%
OTA-Opaque Sites	6.0%
Total Internet	100%

7. Hotel Product Commoditization

Over the past 13 years a significant commoditization of the hotel product has occurred, largely because of the unprecedented price transparency brought on by the Internet and the unhealthy industry practices of competing online on price and price alone. In addition, online travel agencies (OTAs and their price focused marketing initiative have been responsible for the further commoditization of hotel products and services.

Here are several important developments in distribution in hospitality that have contributed one way or another to commoditization of the hotel products.

- Working with Online Travel Agencies (OTAs) that propagate the web with price driven offers.

- Rate Parity across all distribution channels has become the industry norm over the last 6 years. Though a highly positive move aimed to prevent price erosion, rate parity has contributed to the commoditization of the hotel product and services.
- Best Internet Rate Guarantee has become the industry norm- this is good news. The bad news is that every player in the industry offers best rate guarantees, and the marketing aspect has stopped being a differentiating factor.
- Matching the rates of the hotel's comp set has become the industry norm. Rate comparison reports provide a quick snapshot of the hotel comp set's current, 30- and 60-day out rates, so maintaining this % comp set rate consistency+has never been easier.

Just imagine how the hotel world looks through the eyes of the average travel consumer:

- You find practically the same hotel (same room type/stay period) whether you research the hotel's own website or Expedia and Orbitz, call the hotel 1-800 number or speak to a travel agent.
- You find the same rates for the same hotel (same room type/stay period) whether you research the hotel's own website or Expedia and Orbitz, call the hotel 1-800 number or speak to a travel agent.

Under the scenario described above, how would the average travel consumer select a hotel? Obviously hoteliers have to offer something more engaging than just rate parity and best rate guarantee to attract today's savvy online travelers. Providing unique value proposition to the potential customer and differentiating your hotel product from what the competition is offering are two of the strategies smart hoteliers utilize today.

A comprehensive de-commoditization Strategy in 2012 has the important goal of providing a unique value proposition to hotel customers. This strategy identifies unique aspects of a hotel product and destination and develops a differentiated approach to a hotel's key customer segments. This strategy allows hoteliers to create unique specials, event-related getaways, seasonal promotions, and launch marketing initiatives that provide unique value to the customer.

A robust de-commoditization strategy involves the following:

- Focus on the value side of the Price vs. Value Equation
- Differentiation of the hotel product offering from offerings of the comp set
- Differentiation of the hotel offering from the indirect channels (i.e. third-party online intermediaries)
- Differentiated approach to the hotel's different key customer segments (i.e. family travel, business travel, meeting planners, wedding planners, etc.)

8. A Word of Caution: Advertising on OTA Websites

In this economic downturn, Online Travel Agencies (OTAs) are desperately trying to generate incremental revenues, including advertising on their sites, to supplement their decrease margins. Sales pressure from the leading OTAs such as Expedia, Travelocity and Orbitz has intensified tremendously over the past year. In addition to banner ads, Expedia continues to push TravelAds, a pay-per-click advertising program. Expedia proclaims that %similar to traditional search engines, this pay-per-click auction model is great for the any budget+. The only caveat is that when users click on the sponsored listing, they do not go to the hotel website, they go to the

hotel page on Expedia to make the reservation. In other words: advertising cost plus Expedia's margin equals a total cost to the hotel of as much as 30%-40% from the booked hotel revenue.

Does it make good business sense to pay OTAs (who already make a hefty profit margin from hotels' net rates in the so called merchant program) to profit even further from hoteliers' own inability to properly utilize the Internet and to damage even further the hotel brand and price integrity? Website Internet Marketing firmly believes that this is yet another proof of the existence of a new kind of disparity in the hospitality vertical: between smart Internet savvy OTAs on one hand and Web-illiterate hoteliers on the other.

The OTA's merchant model has greatly injured the hospitality industry and has done long term damages to the hotels' brand and price integrity. You do not need more proof than that; just look at the diminishing ADRs. The so called "rate parity" is in fact acceptance of the merchant discounted rates as the hotel rack rates. The hotels' discounted rates on Expedia have become the defacto hotels' published rates. Though claiming to be "Free of Charge", these merchant services cost hoteliers dearly. They cause long term damage and downward pricing pressures (both online and offline) beyond repair.

The Bottom Line:

To lessen dependence to TPIs, use a Product Differentiation Strategy (unique product offerings like packages, suite special, event and attraction-based packages, etc available only via the hotel site) and create an Ebooking Conversion Strategy.

9. Important 2012 Dos and Don'ts

What should Hoteliers do in 2012?

- Unlike the competition, do not cut your marketing spend, but re-evaluate the marketing efforts and advertising budget and focus on proven ROI-focused efforts and formats
- Shift funds from offline to online advertising formats
- Shift funds from brand-building to direct-response initiatives
- Track every dollars spent with sophisticated website analytical and campaign tracking technology (e.g. Omniture or Google Analytics)

2012 Dots and Dots

What marketing initiatives should hoteliers avoid in 2012?

Hoteliers should NOT:

- Experiment with unproven advertising formats
- Advertise on Third-Party Intermediary Sites (TPIs) . ad cost + TPI commission = total cost of 30% - 40%
- Try "sexy" new media initiatives (e.g. advertising on social media sites like YouTube, Facebook.com, MySpace.com, etc.)

Take a hard look at what you are doing: are you taking chances with new and unproven marketing formats? Is your Internet marketing budget ROI-focused? Are you a smart marketer, or are you advertising blindly, distributing limited marketing dollars in unproven or incalculable areas? Most importantly, have you satisfied the basics? These include:

- Website Re-design and Optimization
- Search Marketing
- Email Marketing
- Strategic Linking
- eCRM
- Website analytics and campaign tracking January-August 2012

1. Step-by-Step 2012 Internet Marketing Action Plan

Step 1: Audit the 2012 Internet Marketing Budget / Plan

- Overhaul the budget to become ROI-focused
- Hold off on online advertising that has not proven to bring you ROIs in the past
- Customer Segmentation Analysis + Action:
 - Take a hard look at how your property markets to your key customer segments (e.g. meeting planners, business, leisure)
 - Re-evaluate the importance of your key customer segments and feeder markets in 2012 (e.g. if fly-in guestsqshare is decreasing due to airfare hikes, cuts in corporate travel budgets, or reduced airline capacity, focus more on you drive-in market)

Step 2: Become a Smarter eMarketer

- Focus on marketing formats that generate above industry-average returns
- Implement the latest website analytics + campaign tracking technology
 - Track post-impression and post-click activity
 - Track bookings, room nights, revenues from every campaign
 - Adjust marketing spend instantaneously based on ROIs
 - Don't fall for free+analytical tools- they simply do not work

Step 3: Back to the Basics: Focus on the Direct Online Channel

- Your hotel's efforts in the direct online channel provides both short-term, immediate, as well as long term strategic benefits
- Your ROI-focused marketing plan should include:
 - Search engine marketing, including:
 - Organic search, paid search (PPC), local search, meta search, mobile search, Web 2.0 search
 - Email marketing to your own list
 - Online sponsorships
 - Proven display advertising (banners, etc)
 - Strategic Linking
 - Customer segment and feeder market initiatives

Step 4: Audit the Hotel Website Asset

Hotel Internet marketing starts and ends with the hotel website. The hotel website has become the first, the only and in many cases the last point of contact with the travel consumer. It is only natural that enhancing and optimizing the hotel website should be the top priority. Our experience shows that any website optimizations, enhancements or re-designs pay for themselves with 3-4 months.

Here are some important items to consider:

- Maximize the value of the site . it is the hotel's most important marketing asset today
- Make the site reflect 2012 industry's best practices: user-friendly, search engine-friendly, travel booker friendly, and Web 2.0 friendly
- Optimize, enhance and re-design if necessary
- If the site is over 12 months old, a website optimization is now due in order to take full advantage of the much cheaper organic search related visitors to you site. Make sure the hotel website is optimized for:
 - Travel consumers: the site must describe all aspects of the hotel product and services
 - Search engines: make sure the site has H1 headers, body copy (keyword density), page titles, description tags and meta tags adhere to best practices
- If the site is over 2-3 years old, a website redesign should be considered, or at least budgeted for in early 2012

Step 5: Identify Your Hotel's Unique Value Proposition:

- Identify which aspects of your product resonate best with your customers: why are people staying at your hotel to begin with? Good location, business amenities, free breakfast, etc.
- Market your hotel's unique value proposition to potential customers, for example create unique hotel offers based on your unique hotel product attributes or attributes in the local environment
- Value vs. Price Equation: Do not compete on price only! Focus on the value side of the Value vs. Price Equation

Step 6: Develop your Hotel's Differentiation Strategy:

- Hotel Product Differentiation vs. Third-Party Intermediaries (e.g. stay with in rate parity, but provide gas rebates, room/suite upgrades, etc. if people book on your site)
- Hotel Product Differentiation vs. Your Hotel's Comp Set (i.e. offer what your competition does not)
- Offer a broader selection of specials and packages than the competition and provide the variety of choices your customers expect:
 - Seasonal specials
 - Suite specials
 - Weekend specials
 - Family specials
 - Romantic getaways
- Differentiated approach to the hotel's different key customer segments (i.e. luxury lifestyle leisure, family travel, business travel, meeting or wedding planners, etc.)

Step 7 Establish Several Achievable Objectives for the Year:

- Hotel Website:
 - Create a system for fresh website content creation on an ongoing business
- Web 2.0/Social Media:
 - Develop a Brand Defensive Strategy and at least on web 2.0 initiative for the hotel website
- Make eCRM your top priority
 - Building Interactive relationships; Owning+the customer

- Pre- and post-stay email communications; cross-sells and up-sells, survey and sweepstake, and more
- Building Loyalty should be a main objective:
 - Via product differentiation (offering unique value proposition; de-commoditization of the hotel product)
 - Via customer differentiation (know your customer, personalization, promote existing or create a simple reward program)
- Professional development and training

Conclusion

In the difficult economic environment we are experiencing, getting back to the basics is the hotelier's most prudent marketing strategy. The Internet is the largest and most important marketing and distribution channel in hospitality and by using the step-by-step action plan outlined in this article, smart hoteliers can generate significant revenues, increase market share, and outsmart the competition with a ROI-focused online marketing strategy based on industry best practices.

We believe that a comprehensive ROI-focus Internet marketing strategy is the perfect survival tool in the current economic environment. Focusing on the most important Internet marketing fundamentals should become a top priority for the remainder of the year and 2012. Smart hoteliers with robust Direct Online Channel strategies in place will be the winners in economic downturns like this one.

As you re-evaluate your hotel marketing plans for the year, seek advice from an experienced and ROI-focused Internet marketing company to help you adopt industry best practices, implement latest trends, and utilize the Direct Online Channel to its fullest potential.

About Us

Website Internet Marketing (WIM) is the a leading full-service Internet marketing and strategy firm. Based in Phoenix, WIM has pioneered many of the best practices in hotel Internet marketing and direct online distribution. Website Internet Marketing specializes in helping hoteliers build and enhance their direct Internet marketing and distribution strategy, boost the hotel Internet marketing presence, establish interactive relationships with their customer, and significantly increase direct online booking and ROIs. The firm brings a unique perspective to the industry, gained through working with over 500 hospitality companies including major brands, independent hotels, casinos, convention bureaus and hotel management companies worldwide. Find out more about Website Internet Marketing at www.website-internet-marketing.com, or contact WIM at (602) 509-1949 or pat.pierson@website-internet-marketing.com.