LEARNING FROM THE PAST:

FIVE STRATEGIES

FOR A HEALTHY RECOVERY



THE GUEST BOOK

There are many voices providing recommendations on how the travel industry can weather and rebound from the impact of the COVID-19 pandemic.

This whitepaper is different.

As a part of our mission to enhance the personal connection between hoteliers and their guests, this report, which was created specifically for The Guestbook's independent and boutique brand hotel partners, provides in-

sights and strategies curated from the leading minds in the industry. Our hope is that by harnessing the lessons of the past, together we can prepare for a future in which we provide heightened hospitality for our guests.

An Unprecedented Situation

From the SARS outbreak in 2003 to the 9/11 terrorist attacks, the travel industry has always rebounded from crises. But, the COVID-19 catastrophe is unique.

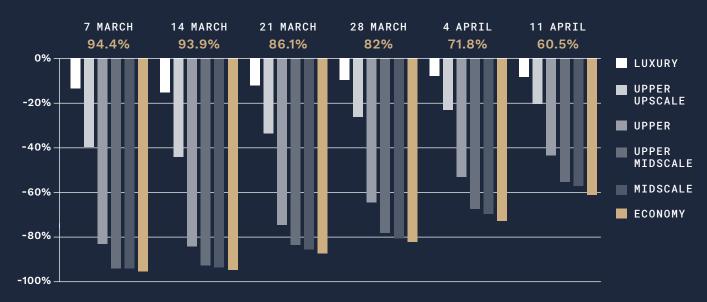
Cancellations went through the roof, global occupancy rates slumped, and revenues per available room (RevPAR) experienced the steepest decline in history. According to the U.S. Travel Association, the decrease in travel will cause a \$910 billion hit to the U.S. economy-that's seven times the impact 9/11 had on the industry.²

The crisis has affected every hotel, from small independents to major global chains. In a recent video presentation to employees and shareholders, Marriott President and CEO Arne Sorenson said, "COVID-19 is having a more severe and sudden economic impact on our business than 9/11 and the 2009 financial crisis combined. The worst quarter we had in those earlier crises saw a roughly 25% decline in hotel revenues on average across the globe. In most markets our businesses are already running 75% below normal levels."

Across the globe, RevPAR declines of 80% are now the norm.

In April, RevPAR fell 83.6% in the United States—the steepest decrease in STR's 35-year history. Luxury and upper-scale hotels continue to be hit the hardest.3 As hoteliers decrease their prices to make up for the lower demand, RevPAR will take longer to recover. CBRE forecasts a contraction of RevPAR by 46% year over year, with a second-quarter contraction of almost 80 percent in the U.S. in 2020. Furthermore, Bernstein analyst Richard J. Clarke recently said that he is expecting that a U.S. recession will draw into 2021, which will have a negative impact on RevPAR into that year.4

U.S. RevPAR CHANGE | MARCH 7-APRIL 11, 2020



Source: STR "COVID-19 Hotel Industry Impact Report"

Now is The Time to Start Planning

Though no one knows how long the recovery will take, everyone knows that a rebound will eventually happen.

Over time, the hotel industry has become more resilient to catastrophes. In fact, according to the World Economic Forum, the time that it takes for destinations to recover from upheavals has decreased significantly over the past 15 years. 5 For instance, after the 9/11 attacks, occupancy levels in New

York took 34 months to recover, with the U.S. market taking 45 months because of the compounded impact of the economic recession. By comparison, Madrid took 12 months to recover from the 2003 train bombings and London nine months from the July 2005 attacks.

AVERAGE RECOVERY TIME BY TYPE OF CRISIS*

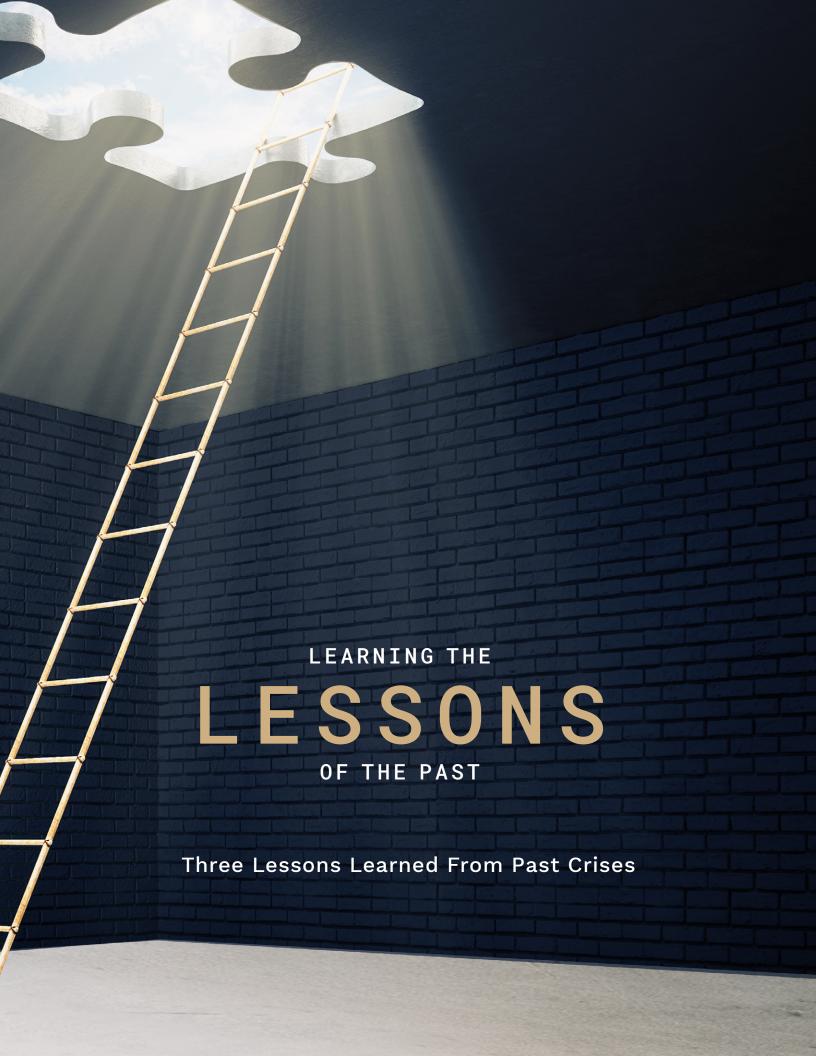
POLITICAL **ENVIRONMENTAL** TURMOIL **TERRORISM** PANDEMIC DISASTER

The industry is already seeing signs of recovery in some markets. As of the week ending May 3, STR reported that hotels in Mainland China had achieved close to 50% occupancy during the Labor Day holiday. The Hainan region which is reliant on air travel saw occupancy levels of 75-80% and an ADR increase of 20% while the drive market of Sanya had 65-70% occupancy rates with a 45% increase in ADR. South Korea also had 50% occupancy rate during their recent holiday weekend.

CBRE expects that as early as the third quarter of 2020, activity will begin to stabilize in the U.S., with a recovery anticipated to be underway by the fourth quarter.



^{*}Estimates from the World Travel and Tourism Council



LESSON 1: Guests will search for deals, and OTAs will benefit

In past downturns, online travel agencies (OTAs) have wielded significant power because price-sensitive customers have gravitated toward OTAs in search of the best deals. According to OTA Insight, OTAs' agility during tough times is what helped them build during their formative years. After the 9/11 attacks and, later, during the 2008 financial meltdown, their global reach gave them a competitive edge when struggling hotels were willing to strike deals to sell their inventory.

The numbers show how OTAs took advantage of the situation. Prior to 9/11, between 1% and 1.4% of rooms were booked through intermediaries like OTAs. After 9/11, that grew to between 4% and 6%. In the early 2000s, as hotels started to rely on OTAs as a cheap and easy way to sell inventory, they unfortunately locked themselves into strict contracts. As hotel sales dropped during the recession of 2008, OTAs actually saw their aggregate sales climb in 2009.6

The recession led to the rise of online travel agencies. Hotels started to give high inventory volumes to OTAs' distribution in order to drive volumes, and because of that, the distribution landscape was able to excel.
 Thomas Willms, CEO
 Deutsche Hospitality and Steigenberger Hotels AG

How Did This Happen?

OTAs knew how to reach hotels' customers because they had hoarded guest data. By utilizing their huge marketing budgets, they were able to find potential guests while hotels, even large ones, found them difficult to reach. Additionally, OTAs used travelers' plans and preferences based on their search and booking histories, thus enabling targeted advertising to specific customers. The price for these services was—and continues to be—the margin-crippling commissions paid out of hotels' booking revenues.

Their expanding networks, powerful web presence, and "divide and conquer" strategy deployed against a fragmented hotel landscape have given OTAs the power to command high commission rates. The U.S. hotel industry is currently paying between \$4 billion and \$8 billion annually in transaction fees and commissions resulting from bookings made via OTAs. As Skift reported, "OTAs are effectively creating a perverse situation where the business of providing a good or service is significantly less profitable than the business intermediating its sale."

A Changing Landscape

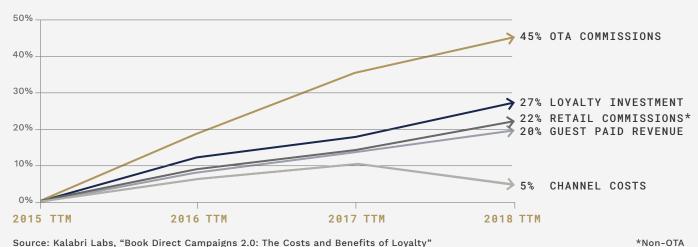
By 2018, OTAs had increasingly gained market share, capturing 39% of the U.S. online digital booking market.⁹ Over the past year and prior to the COVID-19 pandemic, however, hotels had started to regain the market share that they had lost to OTAs.

By 2019, direct booking campaigns, which had been a centerpiece of hotel marketing for several years, had begun to pay off. The campaigns, which encouraged guests to "Book Direct," stemmed from efforts to reduce commissions and to forge stronger bonds with guests. ¹⁰ Hospitality research firm Kalibri Labs found that loyalty member campaigns either strengthened or stabilized their growth, while the OTA channel had either held steady or decelerated.

Now, because of the pandemic, STR believes that the seven largest public OTAs will lose at least \$11.5 billion in revenue this year. 11 This could result in even more aggressive marketing efforts to make up for lost revenues.

LESSON 2: Never Stop Focusing on Direct Bookings and Building Loyalty

GROWTH IN U.S. GUEST PAID REVENUE SPEND ON BOOKING COSTS



Most hotels can succeed in healthy economic times, but when conditions slow down, the lack of preparation is swiftly revealed. A focus on direct bookings and building customer loyalty is especially critical in these troubled times.

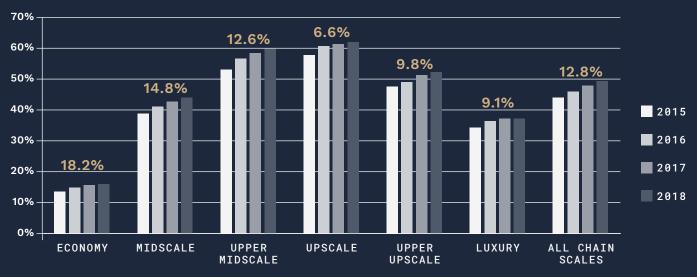
Because of skyrocketing acquisition costs, hotels need to prioritize direct bookings. The "Book Direct Campaigns 2.0: The Costs & Benefits of Loyalty" study from Kalibri Labs shows that the overall cost of OTA commissions has

outpaced overall industry growth, rising at more than twice that rate (45%). Despite the adoption of loyalty membership programs by hotels, total OTA commission costs are still growing well over 60% faster than loyalty investments, which also grew, but only by 27%.

Loyalty programs not only generate direct bookings, they do so at a much lower cost. As more guests enroll in loyalty programs as a result of aggressive direct booking campaigns from major hotel chains, bookings from the

U.S. LOYALTY CONTRIBUTION | 2015-2018

Loyalty RNs as % of Total Room Nights | Trailing 12-Month Through September



Source: Kalabri Labs, "Book Direct Campaigns 2.0: The Costs and Benefits of Loyalty"

NET REVENUE EARNED FOR EVERY \$1 SPENT IN ACQUISITION COSTS OCTOBER 2017-2018

BOOKING TYPE	Net Revenue Earned	Investment Made in 2016	Net Revenue Generated for Every \$1 of Investment
DIRECT LOYALTY	\$54.3B	\$6.52B	\$8.33
ОТА	\$22.0B	\$4.52B	\$4.77

ROI on Direct Loyalty Bookings is Almost 2x OTA

direct channel have increased. In fact, Kalibri's report found that "almost half of the business in U.S. branded hotels is derived from loyalty members." 12

The savings for hoteliers could be significant. According to the Kalibri report, it is less expensive to re-engage with a loyalty member to generate a direct booking than to purchase a booking from a new guest via an OTA. The

study showed that, when calculating the benefit of a recurring guest coming three times after their initial visit, the average net benefit to a hotel using industry averages is approximately \$65 per loyalty member compared to cycling through four different OTA customers. This means that the ROI on direct bookings from loyalty members is almost twice that of OTA bookings.

It's important to note that the economics of investing in direct bookings become even more attractive for independent hotels. The relative savings gap is larger since independents incur higher OTA commission percentages on the one hand, yet don't incur brand fees on the other.

	OTA	WEB DIRECT BOOKING EXPENSE		COST	
	COMMISSION	Brand Fees	Booking Cost (including loyalty expense)	DIFFERENTIAL*	
HOTEL TYPE	A	В	С	A - (B + C)	
INDEPENDENT	20%	0%	10%	10%	
CHAIN	15%	8%	4%	3%	

^{*}Actual numbers vary based on hotel, brand and OTA, but are directionally illustrative of the dynamic.

LESSON 3: Invest in Technology

The brands which have dominated over the past decade share a common thread. Customers have more and more choice in their buying decisions, and providing a frictionless, personalized booking experience with seamless technology has been key to driving loyalty. Individual economies have ebbed and flowed but nurturing long-term partnerships with owners who share our vision has been critical, and something we continue to place great importance on. ??

Patrick Fitzgibbon, SVP of Development,
 Europe, Middle East and Africa, Hilton

Typically, owners tighten their belts when a downturn occurs. However, the Hotel Tech Report warns that properties that don't invest or maintain their investments in the right technologies will suffer the consequences. Conversely, having the right revenue strategy in place as well as a savvy channel manager or digital marketing agency allows hotels to control their destinies in a downturn and perhaps even steal share.¹³

The collapse of Thomas Cook, the world's oldest travel agency, provides some key lessons that can be applied to the current situation. The 178-year-old company collapsed in late 2019 after it couldn't compete with lower cost rivals like Jet2Holidays and couldn't react quickly to Brexit fears. "The rise of on-line travel information shifted power in the industry so that individual

consumers no longer had to rely on brick and mortar travel agencies for expertise as much," Marc-David L. Seidel, professor at the University of British Columbia Sauder School of Business, told TIME.¹⁴

Simply, failure to diversify, innovate, or merely keep up dramatically increases risk. Smart, strategic hotel owners utilize the appropriate technology and diversify their channel mix to maximize revenue from existing guests while also bringing back repeat guests. The article "Here's What You Need to Know About the Business Cycle" declares, "Just as a smart investor diversifies their portfolio, so must a hotel owner. The more sources you can employ to maximize your presence and bring in bookings, the more secure your position in an economic downturn." 15

Strategies for a Successful Recovery

To aid hotels in preparing their re-opening and rebound plans, The Guestbook offers these five strategies.

Focus on conversions

To turn lookers into bookers, hotels must focus on conversion strategies and constantly monitor their analytics to ensure a healthy revenue balance. But what can hotels do to increase direct booking conversions? The Guestbook evens the playing field for independent hotels by optimizing their websites and booking engines with a cash back rewards program. Integration of the rewards message into the entire booking flow boosts conversion and lowers abandonment while increasing guest retention. Additionally, hoteliers without the time and resources to manage their own web direct strategies can rely on services such as The Guestbook's soon-to-be released Web Direct Operator program for turnkey, comprehensive, risk-free solutions. From optimizing the booking engine for conversion, monitoring and enforcing rate parity to the hotel's benefit, buying metasearch ads, to funding the rewards program, all services are administered under a "pay-for-upside" agreement.

Own the guest experience

Low-priced hotel rooms from OTAs come at a cost. According to JD Powers, travelers who book on OTAs rate their experience 45 points lower than guests who book or call the hotel directly. In many instances, the lack of flexibility offered with OTA rates creates friction between hotels and their guests. To Communicating with guests pre- and post-stay via email and text in addition to providing a positive on-property experience is the best way to stimulate loyalty among customers—an area where hotels should have a major advantage over OTAs.

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Look beyond OTAs

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To protect net revenue, hotels must try to negotiate the best possible commission rates and terms with OTAs (as Hilton and Marriott did in 2019) or find other solutions to add to the mix. According to EyeforTravel, since the duopoly of Booking Holdings and Expedia elected to side with guests and refund bookings during the COVID-19 crisis, hotels are looking for other solutions, specifically, fairer platforms or technology partners that can help deliver more direct bookings. "We now have the impetus to fundamentally restructure distribution. We need to improve our own product and lower prices for guests while actually making a profit, instead of handing over \$100 billion to Google, Expedia, and Booking.com while the international travel industry barely scrapes by," said one frustrated hotel owner.¹⁸

Offer member-only rates

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Rate parity, which prevents hoteliers from advertising lower room rates on public distribution channels other than OTAs, has historically hindered hotels. However, gated offers and member rates featured on a hotelier's website allows the hotelier to overcome these parity constraints. According to Skift, Best Western has had success with its new technology. CEO David Kong said, "We just launched our new digital platform, the new BestWestern.com, which enables us to offer a gated discount rate to the Best Western loyalty members. If they book with us directly they would enjoy a certain discount. Typically, it's about 10%. But that's only available if they sign in and then make that booking." 19

Member Rate and Personalization functionality is now available to Guestbook hotel partners. Contact your Customer Growth Representative to learn more about Member Rate and Personalization messaging as this function will enable a more personalized booking experience and gated offers.

Leverage metasearch engines

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With nearly three-quarters of travelers using metasearch during their planning process, it's no wonder that independent hoteliers are turning to these search tools as a way to improve their direct booking volume. Although hoteliers may feel overwhelmed by the numerous marketing tactics and distribution channels on offer, they will find that metasearch is an important way to attract OTA-level volumes to a booking engine at a significantly cheaper cost. Furthermore, if a hotel doesn't play in metasearch for their hotel name, OTAs will be happy to pay to intercept the business and suck profits and guest relationships away from the hotel. Because conversion rates on metasearch are often higher than for other channels, metasearch engines provide a major opportunity for independent hotels to strengthen their direct sales channels and compete with OTAs.

Learn more about converting OTA Bookings to Direct Bookings in The Guest-book's whitepaper, "Metasearch: What to Know Before You Bid," available HERE.

The Guestbook wishes to acknowledge the following publications and the authors of the original source material:

- 1. https://research.skift.com/report/the-impact-of-covid-19-on-the-hotel-industry/
- 2. https://www.forbes.com/sites/tamarathiessen/2020/04/01/us-travel-industry-warns-of-910b-coronavirus-losses/#7e282cc66c9d
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- 19. https://skift.com/2016/08/02/this-is-how-hotels-could-win-the-direct-booking-wars/



THEGUESTBOOK.COM/HOTELIERS

The Guestbook helps independent hotels increase direct booking conversions and net revenue by giving guests the thing they really want: cash back. By offering guests a choice of 5% Cash Back, 5% Cash for a Cause, or 15% Cash Forward toward a future stay on any reservation booked directly with over 700 partner hotels, The Guestbook helps boutique hotels bolster their bottom line and strengthen their relationships with their guests.