

OTA demand share increases in 2011

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Story Highlights

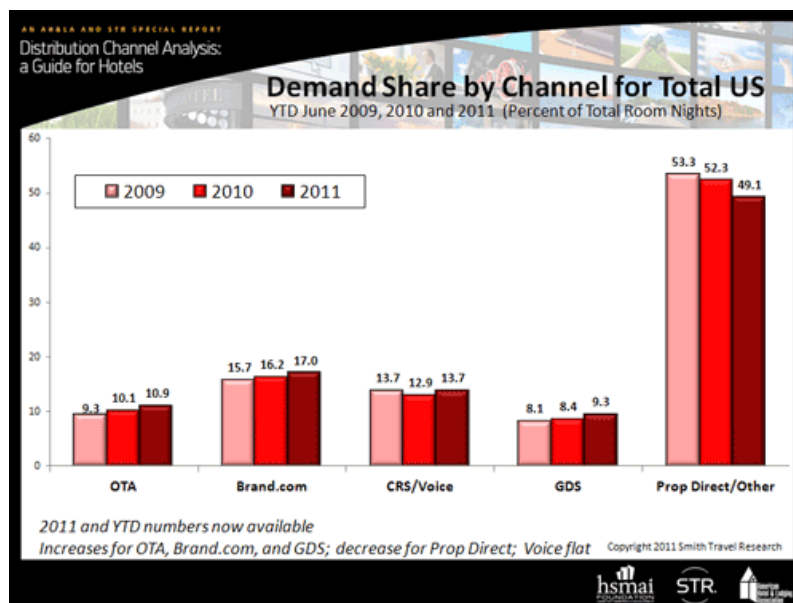
OTAs claimed 10.9% of demand share through June of 2011, according to a just-released update to the AH&LA/STR Distribution Channel Analysis. The property direct/other category captured the largest share of hotel demand by total roomnights at 49.1% through June 2011.

Hotel demand is largely inelastic, said Mark Lomanno, who called upon 20 years of hotel industry data.

NEW YORK—Online travel agencies continued to chip away at total U.S. hotel demand during the first half of 2011.

OTAs claimed 10.9% of demand share through June of 2011, according to a newly released update to the AH&LA/STR Distribution Channel Analysis, which officially will be published later this year. The number is up from 10.1% through June 2010 and 9.3% through June 2009, said STR's Steve Hood, who presented the updated findings for the first time Sunday during a panel at the International Hotel, Motel + Restaurant Show.

The property direct/other category, which includes everything from walk-ins to group business, still captured the largest share of hotel demand by total roomnights at 49.1% through June 2011. That number has dropped from 52.3% during 2010 and 53.3% during 2009, Hood said.



The independent segment saw the biggest percentage point increase of OTA demand share for June YTD 2011 compared with June YTD 2010, though every segment reported an increase in OTA demand—every segment, that is, with the exception of luxury. OTA demand share in the luxury segment fell to 7.9% from 8.2% and 9.2% during June YTD 2010 and June YTD 2009, respectively.

Price elasticity

Mark Lomanno, formerly of STR and now a board member of newBrandAnalytics, addressed the topic of discounting and incremental demand during the panel.

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At the heart of the debate: Does an hotelier generate enough incremental roomnights to justify discounts in pricing?

The answer, Lomanno said, is a matter of price elasticity. If average daily rate is elastic, then lower prices would generate sufficient incremental demand to offset revenue lost through discounts. If ADR is inelastic, then a rate reduction would not generate enough incremental demand to offset the discount.

Data gleaned from the Distribution Channel Analysis, which comprised more than 25,000 hotels, showed that hotel demand is largely inelastic, Lomanno said.

Using the data, he provided an example of a fictional upper-midscale property with 100 rooms, a US\$100 room rate and 70% occupancy. A discount of 10% would increase demand by 4.5% (based on the U.S. hotel industry's 20-year averages). The resulting percent change in net revenue would be -6.1%.

To restate another way: Occupancy would go from 70% to 73.1%, but revenue per available room would decrease from US\$70 to US\$65.83.

There was once a time where it made sense for hoteliers to strategically lower their rates because competitors would be slow to catch on. But in this world of transparency, hoteliers see the movements of their competitors instantly and adjust their practices to follow suit, Lomanno said.

"If there was no such thing as OTAs, two things would happen," Lomanno said to conclude the point. "The industry's occupancy would be slightly lower. And room rates would be considerably higher."