



Phocuswright White Paper

Independent Lodging in the U.S. and Europe

Navigating the Online Battlefield

Sponsored by



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Phocuswright is the travel industry research authority on how travelers, suppliers and intermediaries connect. Independent, rigorous and unbiased, Phocuswright fosters smart strategic planning, tactical decision-making and organizational effectiveness.

Phocuswright delivers qualitative and quantitative research on the evolving dynamics that influence travel, tourism and hospitality distribution. Our marketplace intelligence is the industry standard for segmentation, sizing, forecasting, trends, analysis and consumer travel planning behavior. Every day around the world, senior executives, marketers, strategists and research professionals from all segments of the industry value chain use Phocuswright research for competitive advantage.

To complement its primary research in North and Latin America, Europe and Asia, Phocuswright produces several high-profile conferences in the United States, Europe and India, and partners with conferences in China and Singapore. Industry leaders and company analysts bring this intelligence to life by debating issues, sharing ideas and defining the ever-evolving reality of travel commerce.

The company is headquartered in the United States with Asia Pacific operations based in India and local analysts on five continents.

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Independent Lodging in the U.S. and Europe

Navigating the Online Battlefield

Written and Researched by Robert Cole, Felicia Eisenbeis, Peter O'Connor, Ralph Merten and Lorraine Sileo

Online channels are critically important to the successful marketing and distribution of lodging properties regardless of geography, budget or size. However, it is independents – unbranded properties with little or no marketing affiliation – that require the most assistance promoting their benefits to potential guests.

Independent properties are also the most vulnerable in terms of navigating and exploiting the digital landscape. They are caught between disruptive market forces such as alternative accommodation players like Airbnb and HomeAway, and major hotel groups that are developing soft brands by aggregating collections of independent properties. And as online travel agencies (OTAs) become more powerful, unbranded properties find themselves increasingly relying on intermediaries as a source of business.

In short, independent lodging proprietors are engaged in a multi-front battlefield that frequently requires them to compete in an environment where they lack the resources, technologies and sophistication of the larger, global players.

To better understand the characteristics of the independent lodging markets in the U.S. and Europe, travel industry research firm Phocuswright and Dusseldorf-based consulting group h2c surveyed more than 2,800 independent lodging properties in early 2015. These results were supplemented by telephone interviews with over 50 hoteliers, soft brands, representation companies, technology providers, OTAs and other intermediaries. The project revealed the market dynamics, distribution channels, marketing focus and technology trends impacting the independent lodging sector.

While dramatic differences exist between the independent lodging markets of the U.S. and Europe, the key challenges are universal: insufficient budgets and/or expertise to adequately support the staffing, marketing and technologies required to make effective marketing and distribution decisions. Unbranded properties are often left behind in the digital realm of hotel chains and OTAs, and need partners that can help them navigate the marketplace effectively and reach new customers.

Regardless of where they are based, independents share the following marketing and distribution challenges and trends:

1. An increasing reliance on OTAs for distribution, more so than their chain counterparts.
2. A strong desire to increase online direct channels, but a lack of tools and expertise to execute.
3. Greater investment in online marketing and distribution options such as instant booking, reputation management, metasearch, SEO and social media versus more traditional media.

Independent Lodging – A Complex Product Landscape

The lodging markets of both the U.S. and Europe are highly fragmented. Hotels, resorts and motels represent over 80% of the properties and 95% of total lodging room supply within the U.S. (see Figures 1 and 2). In Europe, where there is more product variety than the U.S.,¹ traditional hotels and resorts account for only 29% of the property count, with much smaller footprint accommodation such as apartments, guesthouses and bed & breakfasts spanning the continent. Due to their greater number of rooms per property, hotels and resorts still account for three quarters of the total European lodging market guest rooms.

The most dramatic difference between the U.S. and Europe is that independents dominate in Europe, comprising 94% of total lodging properties in 2015 (see Figure 3). Europe's independent lodging market is a swarm of tiny businesses squaring off against a much smaller number of larger, brand-supported properties. The average size of a European independent property is only 14 units, while its typical brand-affiliated cousin is over 7 times larger, with 102 rooms.

At 54 rooms, the average U.S. independent property is nearly four times larger than its European counterpart. In total, independent lodging establishments account for 40% of U.S. properties, but still only 30% of U.S. market guest rooms.

Despite the significant differences in their respective lodging portfolios, one similarity links independent properties in the U.S. and Europe: booking performance under-indexes relative to guest room availability. In Europe, despite controlling more than two thirds of the room supply, independents attain only 57% of lodging booking volume. U.S. independents perform somewhat better, but still generate only 28% of total lodging sales versus 30% of the U.S. room supply.

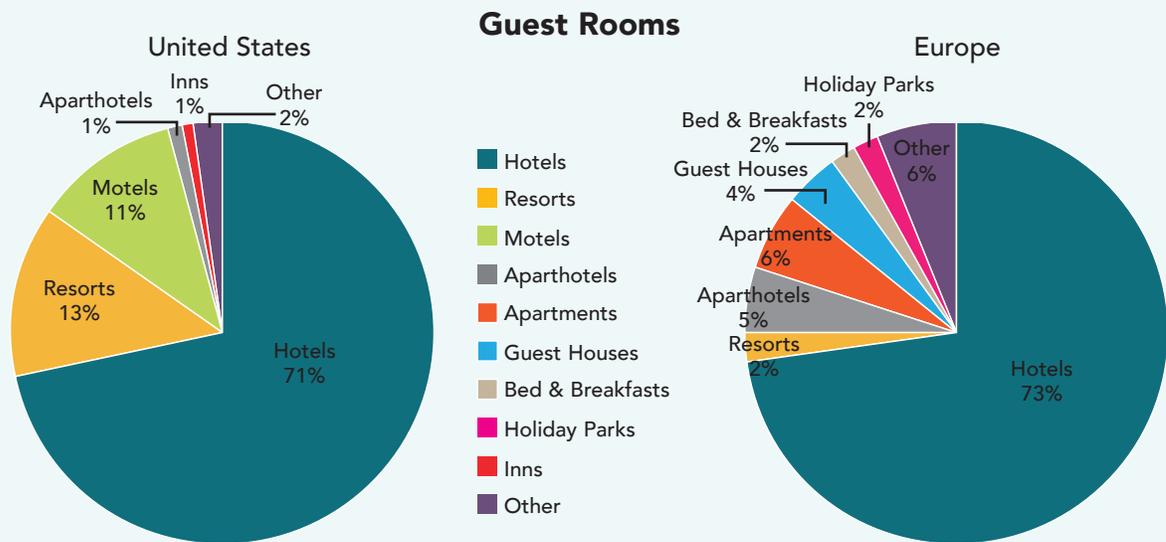
Independents also are projected to lose market share to chain hotels. In Europe, their share of gross booking volume is expected to fall from 58% in 2013 to 56% in 2017. They are faring a bit better in the U.S., but share will decline one percentage point over the four-year period. This inability to compete effectively is linked to their lack of technology, knowledge and expertise. For example, only a small percentage of independents have

1) Unless otherwise noted, source is: [Independent Lodging Market: Marketing, Distribution and Technology Strategies for Non-Branded Properties](#), Phocuswright & h2c (September 2015).

Figure 1: Total Lodging Market Segmentation – Properties



Figure 2: Total Lodging Market Segmentation – Guest Rooms



Source: Key OTAs, April 2015.

NOTE: For Figures 1 & 2 – For Europe, “Other” includes country houses, campsites, hostels, holiday homes, farm stays, inns, villas, cottages, motels, homestays, lodges and chalets. Soft brand members were assigned to the independent lodging market if not affiliated with a hotel chain (hard brand.) For purposes of this study, residential on-demand rentals were excluded.

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Figure 3: Independent Lodging Market Comparison - Europe vs. U.S., 2015

Independent Lodging	Europe	United States
Share of Total Properties	94%	41%
Share of Total Rooms	67%	30%
Share of Total Lodging Bookings	57%	28%

Source: Phocuswright and h2c Independent Lodging Market Special Project
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implemented such helpful tools as an Internet Booking Engine or Property Management System (PMS). Even fewer use a channel manager or revenue management system to help them make distribution and pricing decisions.

A Growing Reliance on OTAs

For many small businesses, the Internet has helped expand marketing reach from a local to a regional, national or global audience. For the lodging market, the online landscape is more complex.

Independent hoteliers are often faced with the challenge of attracting travelers from a widely dispersed population that may only have a one-time or irregular/intermittent interest in a particular property. Investing in awareness building, with limited ability to recoup that investment over multiple stays can be prohibitively expensive. Hotel groups can amortize supply-oriented campaigns that promote brand affiliations across multiple properties or destinations to increase the efficiency of their marketing spend. OTA demand-oriented campaigns support search and discovery that efficiently cross-sell travel products, destinations and brands.

OTAs process a dominant share of online sales for independent properties. In Europe, a whopping 71% of online gross booking volume will be generated by OTAs in 2015. Though there is less dependency in the U.S., OTAs will still represent more than half (52%) of independent hotels' online bookings. Their share should remain relatively stable through 2017.

The impact of OTA consolidation is evident. Among those properties citing effective use of Booking.com and Expedia/Hotels.com, the two brands represented 67% of volume in the U.S. and 52% in Europe. While the mix between the two OTAs is balanced in the U.S., in Europe 87% named Booking.com as their number one OTA.

A Highly Conflicted Lodging Market

It's no secret that independent lodging providers have a love/hate relationship with OTAs. OTAs clearly offer the valuable capability to fill empty rooms, gain visibility online and satisfy consumers who prefer to comparison shop across multiple brands. However, a considerable OTA backlash is evident. There is apprehension that the limited number

of major players wield excessive market power and unnaturally high commissions that increase costs.

As a matter of fact, increased costs of third-party reservations were hoteliers' top concern next to driving direct bookings (see Figure 4).

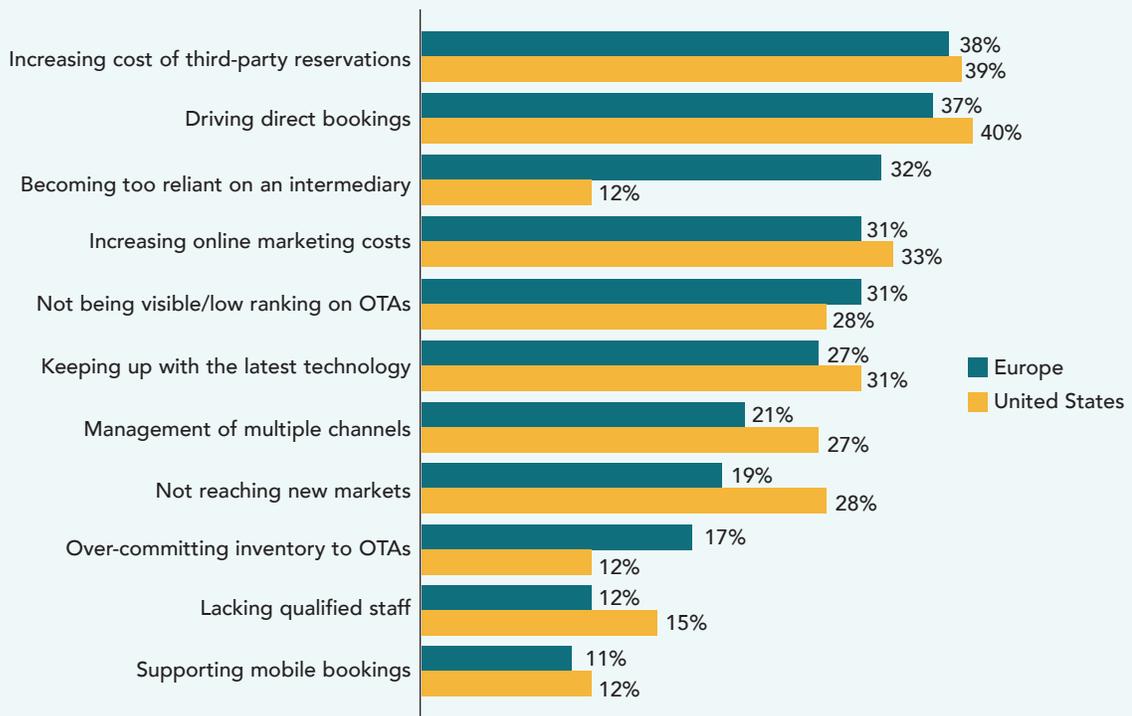
When asked about the relative importance of distribution channels, the independent lodging markets tended to downplay the importance of OTAs. Only slightly more than one in three European, and one in four U.S. hoteliers, regarded OTAs as an important distribution channel (see Figure 5). Instead, respondents indicated that direct website and direct-to-property bookings were of the greatest importance.

Independent properties, despite considerable resentment, generally acknowledge the benefits of consistent business production provided by intermediaries. In short, they wish the business was available at a lower cost and under more flexible terms.

When asked which booking solution was most effective at generating transactions, Europe's independent lodging properties listed Booking.com as the most effective a staggering 87% of the time. Even in the U.S., despite achieving the same share of business as Expedia/Hotels.com, 65% of the properties ranked Booking.com as most effective in generating bookings.

TripAdvisor earned second place ranking in perceived booking generation effectiveness in both the U.S. and Europe. Since launching a transactional metasearch platform in late

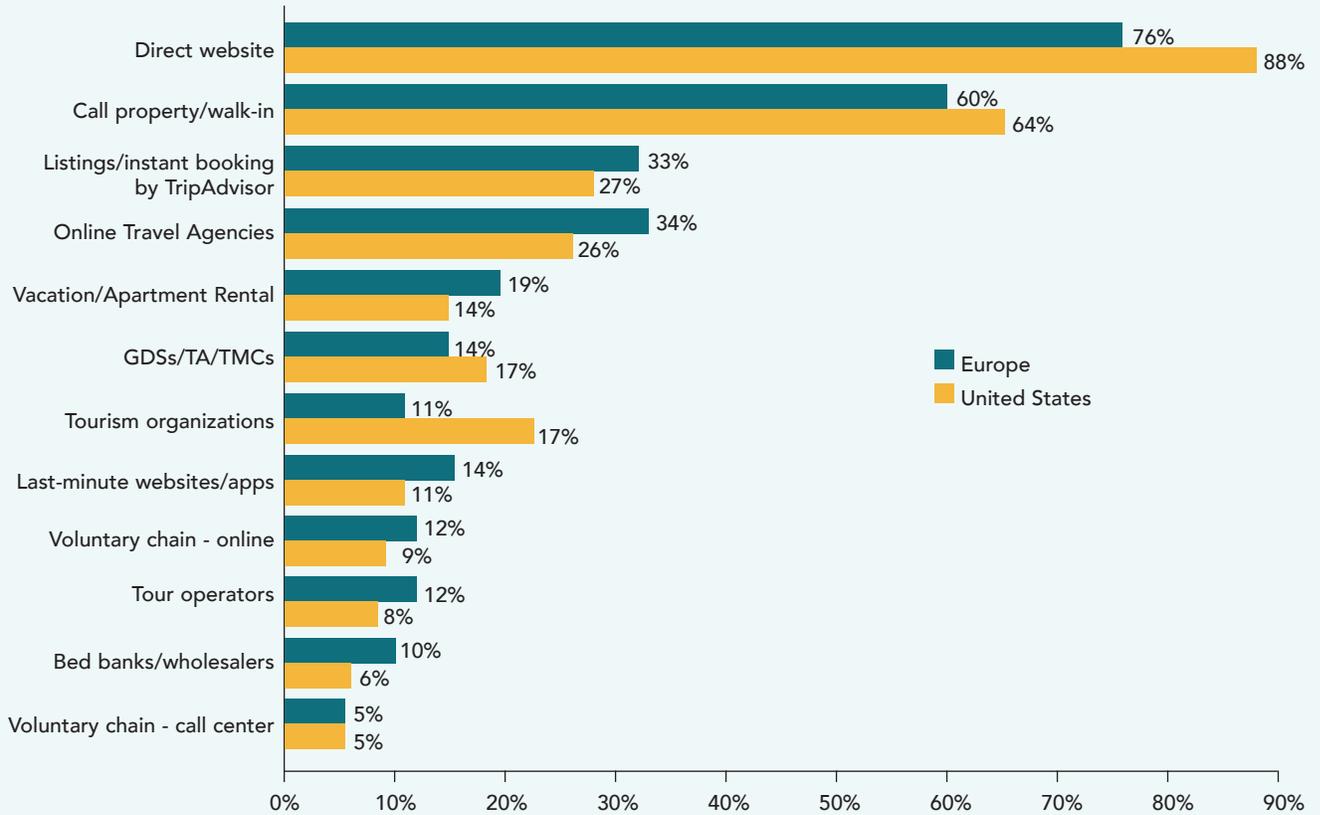
Figure 4: Marketing & Distribution Concerns



Source: Phocuswright and h2c Independent Lodging Market Special Project
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Figure 5: Importance of Channels in Distribution Mix

Independent Lodging Market Distribution Channels Rated “Important” or “Most Important”



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2012 and its Instant Booking capability in early 2014, TripAdvisor has earned the distinction of effectively generating bookings for independent properties. In the U.S., TripAdvisor’s effectiveness score matched the aggregated combination of Expedia / Hotels.com / Travelocity & Orbitz. In Europe, TripAdvisor’s 28% first mention rate was more than three times higher than the third place finisher – Germany’s HRS / hotel.de / hotel.info conglomerate. Expedia / Hotels.com suffered from comparatively low booking effectiveness perception among independents, ranking fourth in Europe.

When seeking booking volume, independent hoteliers in Europe and the U.S. both look to Booking.com, followed by TripAdvisor, while Expedia’s reported importance to independents is limited to the U.S.

Independents Focus Marketing Spend Online

Over 70% of independent lodging’s marketing spend is devoted to online channels, a figure that is consistent across the U.S. and Europe (see Figure 6). One would imagine that this is a strategic decision; however, some alarming gaps exist.

The mixed signals independents send between the expressed low importance of OTAs, despite their strong booking share, and the intent to develop direct bookings, intersect at the marketing budget. Independent lodging operators acknowledge the importance of generating a return on marketing spend, but frequently lack the know-how, systems, budget or time to effectively monitor performance or exploit new opportunities.

Most independents want to drive more direct business. However, most also fail to initiate programs that efficiently allocate funding, measure consumer impact, identify attributable booking performance and calculate the return on investment (ROI) in support of the goal. This inability to reliably execute internal marketing initiatives results in greater dependence on third parties to perform essential marketing and distribution functions.

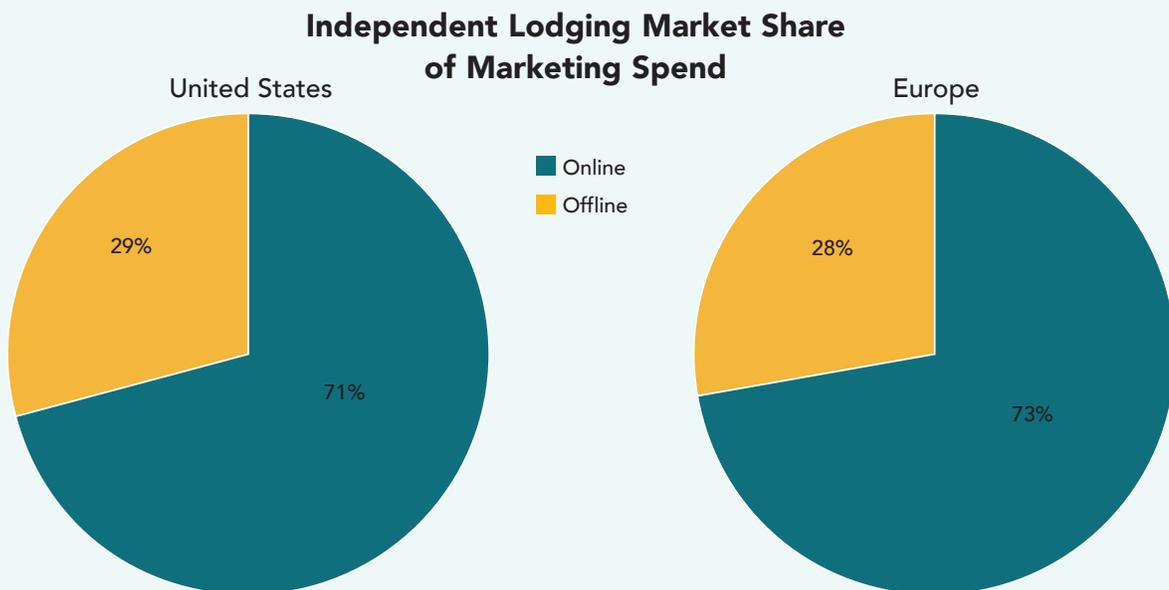
The absence of reliable business analytics is one particular culprit. Many managers are unclear about where their business originates, or how to attribute the costs associated with acquiring new guests, or retaining existing ones. The emergence of mobile and social channels complicates matters further, making it even more difficult to effectively develop or manage multichannel strategies.

Independent marketing budgets are often dedicated to channels that support word of mouth endorsements, discovery and social sharing.

Travel Review Sites Most Valuable For Marketing

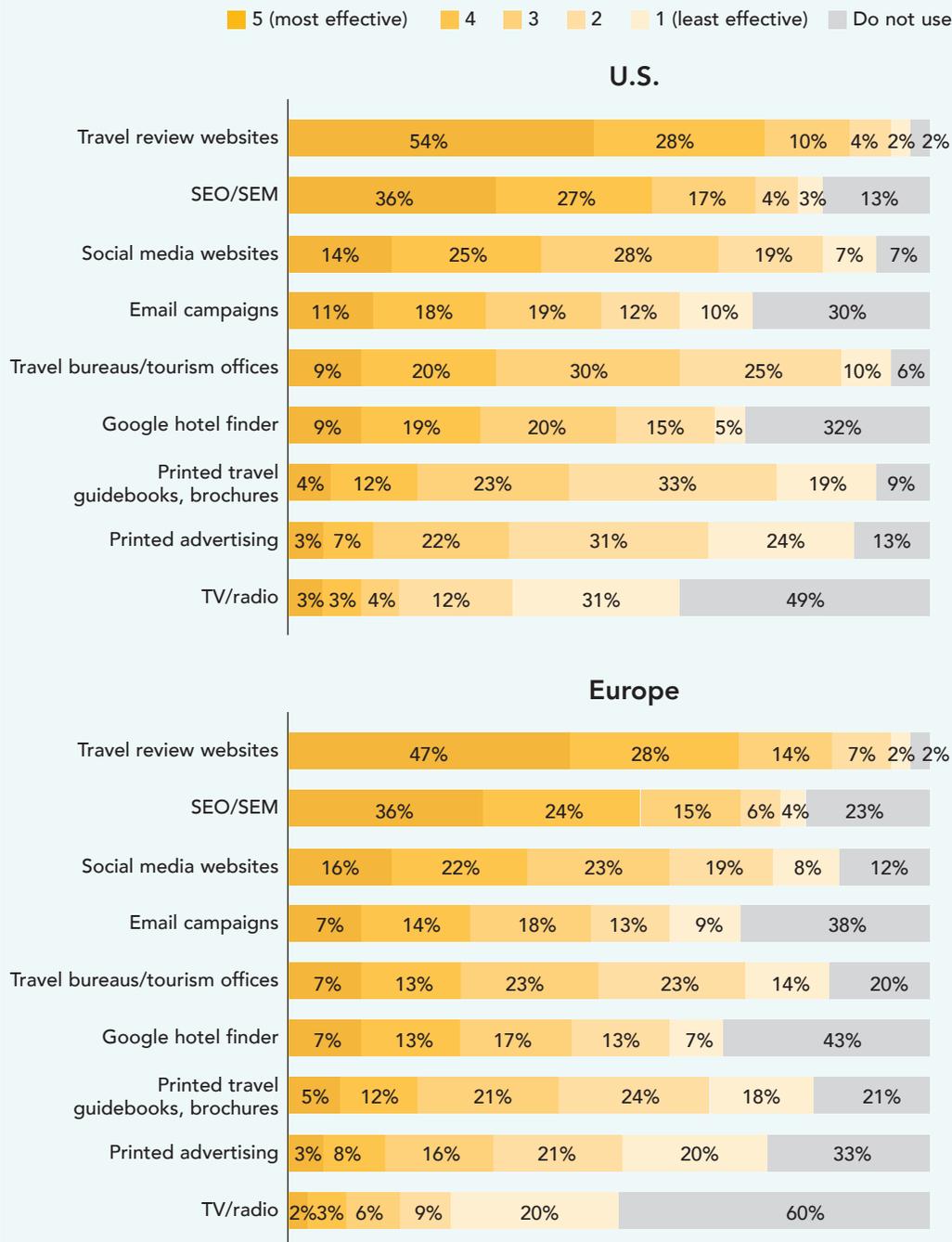
Travel review websites such as TripAdvisor and HolidayCheck (in Europe) were considered the most important marketing channels available to independent lodging properties, scoring 75% for Europe and 82% for the U.S. (see Figure 7). The only other channels

Figure 6: Comparison of Online/Offline Marketing Spend



Source: Phocuswright and h2c Independent Lodging Market Special Project ©2015 Phocuswright Inc. All Rights Reserved.

Figure 7: Effectiveness of Marketing Channels in Generating Bookings
Independent Lodging Market Marketing Channels Rated "Important" or "Most Important"



Online Survey Questions: Please rate the effectiveness of the following marketing channels for generating bookings to your property (1 being least effective and 5 being most effective). Please tell us your intentions for how you plan to use the following marketing channels to generate bookings to your property over the next two years. Base: Total Independent Lodging U.S. (N=780).
 Source: Phocuswright and h2c Independent Lodging Market Special Project
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scoring over 50% were search engine optimization/search engine marketing at 52% and 63%, respectively. Social media websites finished third, at just under 40% in each locale.

It should be noted that all of the top ranked marketing channels are sources of direct booking volume – an aspirational obsession of the independent lodging market. Independent properties strive to offer unique experiences and engage guests in a personalized manner. Their greatest strengths are a unique product offering and attentive service delivery. It is apparent that there is a strong desire for these properties to efficiently express their unique brand of independence online, without relying on third party OTAs or hotel brands to represent them.

To sustain profitability, independent properties must selectively allocate their limited marketing budgets to the channels with the greatest likelihood of producing maximum ROI.

Metasearch Complexities

Yet another particularly complex area for independent properties is the management of metasearch programs. Product variations, differing bidding processes and evolving business models all create additional complexity. Tracking productivity and calculating ROI from metasearch can also be challenging for operations that lack reliable analytics.

As a result, some properties see success with one metasearch site, only to be disappointed with the results from another. Top performing metasearch sites are often thought to be an expensive channel, but are also considered to be more effective than other channels, especially when referring traffic to property direct booking channels.

Many metasearch sites have introduced commission-based reservation capabilities, eliminating the need for consumers to complete the booking on the supplier website. As a result, individual properties may potentially have listing, pay-per-click advertising and commission-based offers all competing for the same customer on a single metasearch property page.

There is also the additional concern that some metasearch sites, specifically Kayak and Trivago, are owned by Priceline and Expedia. As metasearch websites also derive a considerable share of their revenues from OTAs, independent lodging businesses worry that metasearch innovation could be inhibited by a reluctance to introduce features that create advantages for the lodging suppliers.

Concerns Span Intermediaries, Costs and Expertise

Effectively managing relationships with intermediaries is a dominant issue. While wanting to extend their reach and visibility, there is considerable anxiety among independent properties that they have become overly dependent on OTAs to produce too large a share of their business.

Lacking experience, functional expertise and budget, the combination of limited resources and comparatively small unit numbers limits the marketing capabilities of independent properties. Independents, like their hotel chain brethren, are grossly outspent by OTAs.

Where an OTA may reinvest 28% of its revenues into marketing, independent properties (especially those paying high commissions to OTAs) lack profit margins capable of supporting appreciable campaigns. It is not uncommon for some independent properties to have a low single-digit marketing spend.

The interplay of distribution and marketing costs, especially when allocating spend across multiple channels and customer touchpoints, clouds ROI calculations. Channel management tools help to introduce some operational consistency across channels, but the demise of rate parity in the European courts may introduce new challenges as OTA-specific offers may complicate metasearch distribution even further.

Identifying and retaining qualified staff to maintain sufficient expertise is another concern. Spending more on labor or contracting with an affordable digital agency may yield greater returns on advertising spend and improved distribution conversion rates, but can also increase risk if the results fail to meet expectations. With limited revenue streams, deep expertise or specialization is often an unaffordable luxury. Managing priorities and compromises become invaluable operational skills.

Independent Lodging Success Depends on Online Marketing & Distribution

In Europe and the U.S., independent properties desire to attract more bookings through direct channels rather than OTAs. In order for that to happen, independents will need to work smarter than their competitors, with the objective of maximizing the efficiency of their marketing spend and optimizing conversion opportunities through low cost, direct booking channels. Independents also view options such as TripAdvisor's Instant Booking as effective alternatives to OTAs because they can service the customer directly after the booking is made.

For most independent properties, focusing on the effective execution of fundamental marketing strategies is essential for success. The property must clearly be differentiated from its competition, with key selling propositions identified for each guest persona representing primary market segments.

Independent properties also need to access customers in the most cost-effective manner possible. This requires some basic degree of marketing acumen that may be acquired through training, hiring or contracting with a consultant or digital agency.

Where it is not possible to reach prospective guests directly, working closely with intermediaries remains important. Adopting best practices to gain visibility in key feeder markets, or for high value business types, can trigger efficiencies to maximize the ROI generated through these comparatively expensive distribution channels.

Converting lookers to bookers is of the utmost importance to monetize the traffic created through guest acquisition efforts. Given the importance of positive guest reviews in

validating a traveler's pending purchase decision, offering a quality product with consistent service delivery is a necessity.

Large OTAs may be able to outspend an independent property on marketing and engage a global audience through advanced distribution technologies. What they cannot do is host an overnight guest and exceed that traveler's expectations by helping make the trip a success. For most independent hoteliers, the greatest challenge is to effectively communicate that experience online to convert new guests.

By maintaining its independence, unaffiliated properties are able to provide truly unique guest experiences. This helps create a growing number of property evangelists, who can engage in no-cost online promotion through social media and testimonials on review websites.

Regardless of whether the marketing is owned, paid, earned or shared, the future of independent lodging is online, with the bookings converted online as well. The key issue for the property owners will ultimately be if those online bookings transact through intermediaries, or directly with the property.



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