

SMALLER HOTELS ARMING UP AGAINST ONLINE TRAVEL AGENCIES



Major online travel agencies (OTA) have been on the spotlight over concerns regarding price fixing. Expedia, InterContinental Hotel Group and Starwood Hotels faced a lawsuit last year over price-fixing; and as more allegations come out, the French-based Union de Métiers et des Industries de l'Hôtellerie recently flagged the issue to the Euro competition watchdog Autorités de la Concurrence, citing possible collusion in existing prices.

OTAs have raised controversy before with accusations of price-fixing, with the most apparent indication being the identical prices set by hotels and OTA websites. **Some independent hoteliers suggest that the price parity is dictated by the OTAs, which may or may not be entirely accurate because hoteliers have something to gain out of it as well;** when the OTAs set the prices on their websites, hotels don't have to worry about undercutting their own prices. Hotels don't have the marketing power OTAs possess so they have good reasons for paring prices with travel agencies.

Both parties have something to gain from the arrangement; which would explain why the trend seems to persist in spite of multiple complaints from independent bodies and hoteliers. If price-fixing is indeed a reality in the European Union, then these hoteliers and online travel agencies are breaking the law.

The Effects of Price-Fixing

One of the major concerns over price-fixing has been a gradual and consistent rise in room rates. According to the Transport Research Institute, room rates in London have grown 54% over the last decade, while commissions have increased more than double over the same period of time. Price-fixing by major OTAs and hotel chains has led to a steep rise in commissions and a growing disconnect between the amount a guest pays and what the hotel receives.

A significant amount of each room's revenue goes to the OTAs and the amount keeps rising each year, which is why some hoteliers are challenging OTAs, and it is also one of the reasons the European competitive authorities are poking around.

The Marketing Issue

Hoteliers are business people and as such, they require the assistance of a number of intermediaries in order to sustain their business. Majority of hotels wouldn't survive without additional marketing which normally comes from third party companies, and specifically, OTAs. The truth is without OTAs, smaller hotels would have to spend large amounts of money just to fill up their rooms; perhaps twice what they currently pay in commission. In order for them to sustain their business they would have to invest in better marketing strategies, build better websites, get involved in social media, SEO and a multitude of internet marketing avenues.

Hotel websites have moderate conversion rates and most small-scale hoteliers don't allocate their revenue towards teaching merchandising skills so it would require a revolutionary marketing plan for them to work out an effective formula that doesn't

include OTAs. OTAs have 75% market penetration of all online hotel bookings, with hotels getting about 50% of their revenue directly from these bookings. Small hotels tend to operate under a marketing misconception about online travel agencies and that limits their growth potential. Independent and unbranded hotels require additional support from savvy marketers in order for them to penetrate the competitive hotel industry and experience continued growth.

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