“Demystifying the Digital Marketplace: Spotlight on the Hospitality Industry” is a three-part study dedicated to helping hoteliers understand and effectively navigate the digital marketplace.

Part II examined guest stays and expenses of 25,000 hotels over the course of three years (2014-2016) and mapped performance patterns of each hotel segment. Here’s what we learned.

**HOTELS ACT, GUESTS RESPOND**

Data revealed in Part II builds upon the cautionary tale outlined in Part I, regarding the impact of the expanding digital space – specifically, that of online travel agencies (OTAs). The ratio of direct-to-indirect bookings continued to drop, while commissions paid to OTAs continue to rise, costing the industry almost 20% of total guest-paid OTA revenue in 2016 alone.

But it also confirmed the legitimacy of opportunities outlined in Part I, such as the importance of loyalty bookings in driving profitability. On average, loyalty bookings received a 5%-20% higher average daily rate than non-loyalty bookings, capturing more revenue and avoiding OTA commissions through direct booking.

To capitalize on this opportunity, hotels launched new and innovative campaigns designed to attract more direct booking business through enhanced offerings to loyalty members, including exclusive member only rates and added amenities. It’s working. **Part II shows that growth in OTAs has slowed over the past year, while Brand.com remains almost two times the source of business for hotels compared to OTAs – 20% vs. 12.4%**.

But there’s more to be done. A shift to direct channels resulting in even a 1% improvement in profit contribution would result in almost $1.5 billion for the U.S. industry. The importance of capturing the direct booking business cannot be understated, which is why we’re in the process of developing a separate white paper dedicated to direct booking analysis, scheduled to be released in April, 2017.

**BRAND LOYALTY AT ALL TIME HIGH**

Part I of this report urged hoteliers to explore any possible avenue to build relationships with customers and instill brand loyalty, citing customers’ desire for personalized, one-to-one experiences as an opportunity to rise above the third party booking options.

**According to Part II, the proportion of business delivered by loyalty members increased in all segments over the past three years.** Upper and Middle Tier hotels now generate more than 50% of business from loyalty members – up 6.5% and 7.4% respectively from 2014 to 2016. Lower Tier hotels have also made significant gains – growing loyalty business share by 17% from 2014 to 2016.

**WHILE HOTEL DEMAND IS AT RECORD HIGHS, REVENUE CAPTURE CONTINUES TO DECLINE**

Significant gains in direct booking and record highs in major categories such as room demand and average nightly rate, have not been enough to pull ahead of third party costs. **Revenue capture - or, the percentage of guest paid revenue hotels retain after customer acquisition costs – declined from 84.4% of every dollar in 2015 to 83.9% in 2016. This represents $729 million in revenue that hotels could have had to put toward improvements to the guest experience.**

Customer acquisition costs are particularly challenging for lower tier economy and midscale hotels that rely on in-person/phone bookings and don’t have the budgets to compete with OTAs. Expedia and Priceline reported spending $6 billion on Google search alone. Meanwhile, OTA business grew by 44% among lower tier hotels.

**CONCLUSION**

Despite hotel brand, segment or geographic location, one thing is certain: Diversifying your acquisition strategies and understanding the optimal mix for your business is the key to capturing more revenue. Part III of this report will offer concrete actions hotels can take to ensure the best path forward.