Profits, Parity and the OFT: Recent Changes in Revenue Management

Introduction

There is no doubting the impact rate parity has had on hotel pricing practices since the online travel agents (OTAs) started signing up hotels in the new millennium. 'Rate parity' means that every OTA contract will require a hotel to provide its lowest publicly available rate for each room type it sells. Given that every OTA insists on - and vigorously enforces - this stipulation, the hotel has little choice but to sell at the same rate across all public channels, including all OTAs and their own website.

In many ways rate parity has for a long while provided a framework to revenue management within which - for better or for worse - any revenue manager will typically operate. However, this near-universal framework has come under increasing scrutiny in the past couple of years from regulators looking at its perceived anti-competitive aspects, with the UK’s Office of Fair Trading (OFT)’s ruling in January 2014 one of the most important challenges to the fabric of rate parity.

Impact of the OFT ruling

The result of the now-defunct OFT’s investigation, which lasted over two years, was to permit the discounting of sale rates by any party within their own closed groups of customers. All OTAs and hotels are now free to discount rates (using their own commission in the case of OTAs), with just a prior full-price booking and active opt-in required for the customer to gain membership of that closed group.

As the ruling has been in force for several months, now would seem to be an opportune moment to assess what consequences it has had for UK hoteliers, and what ongoing further challenges to rate parity might mean for the industry.

A means to a more profitable business?

So, how can hoteliers (particularly revenue managers) take advantage of the ruling? The regulation as it currently stands places emphasis on the concept of the closed group, so building that database of opted-in customers is key. Provided there is compliance with data protection regulations, asking past and present guests to opt-in to a closed group is a good place to start. This process should be as painless as possible – asking the fewest questions necessary and in the most easy-to-use format – to get the best results, especially when one bears in mind that there appears to be no minimum amount of data to be held on closed group members.

Once established, the hotelier can advertise below-parity rates to their closed group, with those rates bookable through the hotel’s website or with a reservation agent over the phone. Advertising the below-parity rates can be a case of sending an email to the closed group, or by allowing the closed group access to hidden rates on the hotel website.

With the much higher margin of direct bookings against those delivered by OTAs (whose commissions can be as high as 25%) there is plenty of scope for the revenue manager to set rates that are both attractive to the closed group customers and still more profitable than non-direct business. And all of this can be achieved without any other party having contractual recourse against the hotel.
The prior booking requirement

However, one aspect of the OFT ruling that remains questionable is the stipulation for the closed group members to have made a prior full-price booking, with indications showing that this requirement is not being adhered to. For example, HotelTonight would seem to offer parity-busting rates to a closed group whose membership appears to be determined solely by having downloaded an app.

Another factor counting against prior bookings as a serious requirement is that its application relies on the OTAs enforcing the lowest available price terms of their contracts but without any visibility into a hotel's historic bookings across all channels - a near-impossible task. Moreover, the OTAs will likely have no interest in maintaining a requirement that they themselves may choose not to follow.

In effect, what this means is that hotels can promote below-parity rates to anybody that visits their site and opts in, with the VIP Rates function on the Prince of Wales Hotel website being a good example.

It is worth remembering that promoting below-parity rates does not put a hotel in contravention of the OFT ruling or any other any regulation. At worst, a hotel straying outside the wording of the ruling will be in temporary breach of one or more of its OTA contracts, which will almost always result in a friendly call from whichever OTA may happen to notice the discrepancy in pricing. Unless current conditions change drastically there will always be plenty of opportunity to amend pricing to everybody's satisfaction.

The future of rate parity

However, as hotels adapt to this modification to the rate parity framework it would be remiss not to consider how the landscape could yet change. After all, the original OFT ruling has already been contested by Skyscanner in a case currently under consideration by the UK Competition Appeal Tribunal. Skyscanner maintain that the current regulations (which were proposed by Booking.com, Expedia and IHG to satisfy the OFT) do not go far enough to break down the perceived anti-competitive behaviour, and that discounted rates should be freely available to the public with far less restriction. The outcome of these legal wranglings could have serious implications for the maintenance of rate parity and revenue management in general.

If regulators are prompted into taking further steps against rate parity then hotels would likely have more freedom to set sale rates on a channel-by-channel basis, favouring those which provide the highest margin - principally their own website - whilst maintaining volume overall. This in turn will add extra impetus to maintain websites that are optimised for conversion and so take full benefit of the price advantage given to them by revenue managers increasingly sensitive to cost of sale (notably OTA commissions). There is little doubt that the landscape will become more complex if rate parity were to be broken down, and distribution tools employed by hotels will reflect that added complexity.

Moreover, a shift in shopper preference to direct channels, as suggested above, will also put extra onus on search engines and meta search services as a conduit to sales. Shoppers looking for the best deals will lean on search to find the hotels’ direct websites, and if they cannot find the hotel they want they will inevitably look elsewhere. As a result, disciplines such as search engine optimisation ('SEO'), content marketing and advertising on search engines will gain further importance.

Conclusion

For the moment the industry will have to wait and see the full extent of price regulation both in the UK and abroad. But what seems certain is that revenue managers should be prepared to think and act differently now, with tools that keep pace with industry conditions, in order to drive the best profit for their properties.

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www.instituteofhospitality.org
Further resources

Avvio - Booking Conversion engine, website and digital marketing solutions for the hospitality industry.
www.avvio.com

Competition & Markets Authority (CMA) -
A non-ministerial department promoting competition to benefit consumers within and outside the UK.
www.gov.uk/government/organisations/competition-and-markets-authority

Business Source Corporate, EBSCOhost, viewed 29 August 2014.

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Reeves, F. Institute of Hospitality Webinar - Reclaiming profits and reducing dependency on OTAs. 2014. Institute members can find the webinar by logging in to the Institute's Online Catalogue and searching the webinar's title.
www.instituteofhospitality.org/info_services/online_catalogue

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