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THE DIGITAL DIRECTION: HOTEL MARKETING BUDGETS AND A DIGITAL 101 FOR HOTELS

PART I OF A TWO-PART SERIES

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The Digital Direction: Part I

This article is Part I of a two-part series analyzing the landscape of digital marketing for hotels and motels in 2014. Part I reviews the fundamentals of digital marketing and why it is vital hotels understand current trends. Part II will investigate the future of “earned content” marketing.

Time is precious; more and more people are booking travel on the go and they want fast response times and 24-hour access.¹ These needs have caused a fundamental shift in the channels consumers are using to book hotel rooms. The Q3 2013 Travelclick update shows that 60.3% of individual business and leisure guests book online, through the brand.com website, global distribution system that travel agents use, or through OTA’s. The remaining 39.7% is booked directly to the hotel via calls and walk-ins or through CRO, the 800 number.²

Booking Channel	Q3 2013
Brand	27.0%
CRO	15.0%
Direct to Hotel	24.7%
GDS	18.4%
OTA	14.9%

TravelClick Press Release, Individual Business and Leisure Guests Continue to Book More Hotels Online in Third Quarter 2013

Why Hotels Should Care About Digital?

- 65% of same-day hotel reservations are made from a smartphone;³
- Hotel online bookings increased 11.8% Q3 2013 over Q3 2012;⁴
- By 2014, PhoCusWright projects mobile phone and tablet bookings will make up 20% of bookings through hotel websites;⁵
- Guests are not just looking for content, they are looking for meaningful stories that will help them to better understand if a particular hotel

will contribute to the success of a traveler’s trip. Digital is the way to communicate.⁶

Some Digital Marketing Basics

Search Engine Optimization (SEO): The method used to help hotels earn traffic by optimizing a hotel’s position in the main search engines such as Google, Yahoo and Bing, which leads to increased visibility and occupancy.⁷

Search Engine Marketing (SEM): This is the process used to gain traffic by purchasing ads on search engines.⁸ Pay Per Click is likely the most familiar SEM - advertisers pay publishers when the ad is clicked. In addition, hotels can bid on keywords, which determines the ads that will appear when a potential customer searches for a hotel on Google, Yahoo, Bing, or any other search engine.⁹ Choosing the right keywords increases the chance of a hotel’s ad getting clicked.

Online Travel Agency (OTA): Guests use these 3rd party vehicles to book hotels and the OTA’s often take a high commission rate. Examples include Travelocity, Expedia, Orbitz, Priceline, and Hotwire.¹⁰

Metasearch/Online Aggregator: These companies collect information from multiple OTA’s and display the results on one screen. They do not sell fares; instead, they send the potential customer directly to airlines or to OTA’s to book.¹¹ Examples include Kayak and Google Hotel Finder.¹²

Global Distribution System (GDS): Traditional or online travel agents use this system to access hotel inventory. Hotels can use Central Reservation Services (CRS) to manage GDS connections, rates, and inventory.¹³

How do Hotels Allocate Their Marketing Budgets?

It will not come as a surprise that the location, brand, size, and guest mix directly impact the marketing budget strategy for a particular hotel. According to Vizergy, a basic rule for digital marketing budgets is to allocate the same percentage to digital from overall marketing as the percentage of overall rooms revenue that originated from digital sources.¹⁴ For this review, we have interviewed seven urban hotels, large and small, branded and independent, to better understand how both the size and allocation of the marketing budget varied. The hotels ranged from 63 rooms to 2,000 rooms and marketing budgets ranged from \$200,000 to

\$6.5 million. What's shared below were the essentials of our findings:

Pay Per Click

Five of the seven sources interviewed allocate some portion of the budget towards pay per click. Some set up a threshold and only buy key words when they need business. Some branded hotels do not implement pay per click at the property level, but the brand allocates its corporate budget towards pay per click advertising. A large independent hotel indicated that pay per click was its biggest marketing expense and that a third party determines the key words to spend money on each month. A newer independent hotel indicated that it used pay per click to advertise for a specific segment until it built a database. Some small independent hotels do not use pay per click at all and choose to spend money on regional marketing or with OTA's.

Websites

Website maintenance seems to be of utmost importance to hotels and all of the hotels interviewed outsource this function along with SEO. Website maintenance was quoted to range from \$8,000 a month up to \$1.8M a year. Building a brand new website can even more costly. One branded hotel employs an E-commerce Manager who is dedicated to a market and works with a third party website manager to ensure new content is added quarterly and to conduct an annual audit of the content. Another branded hotel pays a "digital marketing" fee to corporate, which handles the hotel's websites and SEO.

For two small independent hotels, a third party handles the website, email blasts, newsletters, e-cards, and promotions. In a large independent hotels, the website maintenance function falls under Revenue Management. A representative from Revenue Management works very closely with the third party to update the content at least every other week, keeping it fresh.

In addition, hotels look at metrics from website visits including the number of bookings made on the website, the demographics of the people visiting the website, and the length of time people are staying on the site. As described in "The Smart Hotelier's Guide to 2014 Digital

Marketing Budget Planning", the higher the quality of the website SEO, the better the results will be from SEM campaigns.

OTA's and Metasearch

Independent hotels tend to use OTA's more heavily than branded hotels. For one large branded hotel, Revenue Management drives OTA participation. The branded hotel has a contract with the OTA to sell a given number of rooms and revenue management decides when to sell the rooms. OTA commissions, which tend to be high, are a rooms expense, not a marketing expense. That same branded hotel pays for advertising on Kayak and other metasearch websites in an effort to capture guests who are past the research phase. One large independent hotel said they "rely quite a bit on OTA's and the reservation expense is significant." The same hotel also spends money on pay per click ads on OTA websites. A small independent hotel said it negotiates the commission rates by forming partnerships with the OTA's and running special promotions.

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Social Media

Hotels are still trying to make sense of social media and discover its full potential. Although most hotels do consider social media in their digital marketing strategies, there are discrepancies in what avenues are the most effective. While most hotels seem to be on Facebook and Twitter, there are varying degrees of engagement across other social media platforms including Google+, Instagram, YouTube, FourSquare, and Pinterest. According to the HeBS report called "The Smart Hotelier's Guide to 2014 Digital Marketing Budget Planning", social media is not a distribution channel, it is an engagement channel. This may be changing as social media results start appearing higher in search engine results.

Hotels are using a combination of on-site and third party companies to manage their social media strategy. Five of the seven hotels interviewed outsource their social media monitoring, but most have an on-site employee who works with the social media channels part time. Hotels are experimenting the on-site social media manager in an effort to define the role. For example, one hotel company said they have typically paid agencies to do the content, but their New York properties are the first market to have an on-staff social media coordinator who is in charge of managing four channels for five hotels in the market. A branded hotel in New York said it is getting more involved with social media and currently has one person on the team who deals with both social media and PR for four hotels in New York City, but ideally it would have one dedicated person for each property.

One large independent hotel, currently being re-branded, has hired a third party to manage its social media because it wants a more “professional voice.” Smaller independent hotels do not use a third party; instead, a guest services or front desk employee maintains the social media on a part time basis. One management company has an employee at the corporate office who oversees social media operations and determines the standard operating procedures. For example, the employees have a required response time and are told to reply only if the review is below a certain number of stars. One independent hotel receives free social media monitoring as part of its website maintenance contract. Another small independent hotel acknowledged that “the Millennials, ages 18-35, are a big market and they rely solely on social media so the marketing needs to work on mobile and the tablet.” This hotel maintains weekly blogs to showcase a guest or an event and encourages its guest to post pictures on Instagram, which are then posted on its website. Social media channels appear to be monitored as frequently as daily or as little as 2 times per week. The frequency may vary depending on the channel.

How social media influences digital marketing budgets and interacts with other digital marketing efforts is the subject of Part II of this series.

Public Relations

Similar to social media, the PR role varies significantly across hotels. One large branded hotel has a public relations person on staff and another hires a third party to run its PR for high-profile events. One of the independent hotels interviewed spends 30% of its budget on PR efforts that appear online and in print such as fashion and travel guide magazines. The hotel often hosts travel writers and uses its editorial and content to obtain coverage in leading and influential (heavily followed) blogs.

Other

Marketing budgets are also spent on GDS, trade shows and travel, memberships for industry associations, printing, stationery, photography, travel guide ads, email blasts, brochures, and loyalty programs. Some hotels also spend money on group marketing by networking with meeting planners and websites that support and drive catering sales. In addition, some of the independent hotels have very region-specific marketing that allows them to take advantage of their local neighborhood and capture the guests coming to that area.

What is the future of Digital Marketing for Hotels?

The consensus is that many hotels are migrating towards digital and away from print. The management company of a recently acquired hotel helped to move the hotel towards digital marketing and away from its traditional marketing in airline magazines and direct mail. Two hotels claimed to spend 90% of their marketing budgets on digital and one said it spends the “majority” on digital and a fourth estimated about 60% on digital. The rapidly increasing trend towards online bookings indicates that hotels should be spending more and more on the digital space. In addition, many hotels use the terms “digital marketing” and “e-commerce” interchangeably. Hotels think about the two terms as ways to drive traffic to their websites and ultimately convert guests to purchase.

When asked what it considered to be digital marketing, one large branded hotel responded that it is paid search, SEO, OTA participation, and marketing on third party

megasearch and review websites. Other hotels said that digital is anything online, not print.

With the Internet, it is easier than ever for guests to read reviews, research hotels, compare prices, and find available rooms from anywhere using their mobile phone, tablet, or laptop computer. Hotels need to understand the digital space to be competitive and win customers. 81% of guests find user reviewers important and 49% of guests will not book a hotel without reviews.¹⁵ The future of digital marketing is enormously impacted by how hotels manage earned content; this is the subject of Part II of this series.

Trends to Anticipate

- The sources of traffic and revenue will continue to increase on mobile and tablet devices.
- Meta Search Marketing, the mix of hotel online distribution and online marketing, is becoming very popular. Not only do hotels need to manage their inventory and pricing real-time, but they also need to develop marketing technology to manage campaigns daily and by property. “The Smart Hotelier’s Guide to 2014 Digital Marketing Budget Planning”, says Meta Search is the “new revenue frontier in hospitality and a great way to shift share from the OTA’s.”
- A move will be made towards cloud hosting (sharing networks between hotels to create a larger economy of scale), and content distribution network to improve site

performance and increase space.¹⁶

- We live in a multi-screen world. Travellers move across devices to complete bookings.
- There will be an uptick in Social Media Marketing as search engines are favoring social media sites in search results.¹⁷
- Website speed could have an effect on your search engine rankings.
- Customers want to engage through video. In 2013, 81% of online travel bookers consulted videos before booking.

Useful Tips and Tricks

- Use reservation conversion boosting applications such as email retargeting, CRS reservation recovery, and “Welcome Back” recovery programs that allow visitors to return to a website, right where they left off.
- Design your email campaigns to accommodate mobile, tablet, and desktop channels.
- Utilize reputation-monitoring tools to streamline your social media content and reviews in one place.

Budget Snapshot

See below for a marketing budget allocation recommendation featured in “The Smart Hotelier’s Guide to 2014 Digital Marketing Budget Planning”.

Budget Line Item	
Digital Assets Optimization, Consulting, and Operations	
Website Re-Design+ CMS Technology Upgrade	15-25%
Account Management, Strategy & Consulting	9-11%
Reservation Conversion Boosting Applications	5-7%
Cloud Hosting & Content Distribution Network	2-3%
Web Analytics & Campaign Tracking	2-3%
Website Operations	2-3%
Core Digital Marketing Campaigns	
SEO	8-10%
SEM	24-30%
Meta Search Marketing	8-10%
Email Marketing	2-4%
Online Media & Retargeting	6-8%
Social Media & Reputation Management	2-4%
Business-Needs Driven Multichannel Marketing	
Multichannel Initiatives to Achieve Concrete Business Goals	15-25%

Any Questions?

While hotel strategies may vary from branded to independent hotels and from large hotels to small hotels, it is necessary for each hotel to identify the best way to tell its “story” online. It is recommended that hotels experiment with each avenue including OTA’s, metasearch, third party sites, social media websites and techniques, SEO, and SEM and track metrics to determine the best ROI for its unique situation. It all starts with a superior website and builds from there.

Part II of this series will further analyze digital marketing, and emphasize the role of earned content in a hotel’s marketing strategy. The article will look at earned content through the perspective of the brand, the online reputation management (ORM) provider, and the marketing expert.

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About the Authors



Leora Halpern Lanz has served as HVS's Director of Marketing since 1999 and is responsible for coordinating the global marketing, external promotion, public relations, and social media efforts of HVS' worldwide office network and comprehensive hospitality services, global conferences and exclusive data and research. Additionally, she coordinates the internal communications for the firm and contributes to the production of the firm's weekly e-newsletter, website and intranet. Her efforts have earned her awards and accolades from the prestigious Hospitality Sales &

Marketing Association International (HSMAI) including being named as Hospitality Sales & Marketing Executive of the Year in 2010, and awards from HVS itself. Additionally, excerpts of her articles will be included in the American Hotel & Lodging Educational Institute's Sales & Marketing textbook, 6th edition, scheduled to be released in March 2014. Leora also directs HVS's Marketing & Communications which provided branding, marketing communications, public relations and digital/social media advisory. Her specialties include media training, position statement development, press relations and alliance/relationship strategies.



Lindsey Pete is currently a second year MBA student at Columbia Business School and will graduate in May 2014. Lindsey graduated from the Massachusetts Institute of Technology in 2008 with a B.S. in Management Science. Prior to coming to Columbia Business School, Lindsey worked at Target Corporation for four years as a Business Analyst, Operations Expert, and Assistant Store Manager. Lindsey came to business school to make the purposeful transition into the hospitality industry. Since coming to school, Lindsey has

interned at Hostelling International, Host Hotels & Resorts, and Sydell Group with the goal to start her career in hospitality after business school.



Erin Bagley is an Analyst with HVS's New York office, specializing in hotel valuation and consultancy. She joined HVS in 2012 and worked with HVS Caribbean on consulting assignments and in conference planning in conjunction with her post-graduate studies. After completing a Master of Arts in Public International Management at Sciences Po (Institut d'Etudes Politiques de Paris) she joined HVS full-time. Since then she has conducted valuations, feasibility studies, and other consultancy assignments

across the United States, and continues to organize the HVS Caribbean Investment Conference. She also has a Bachelor of Arts in International Affairs from Boston University.

About HVS

HVS is the world's leading consulting and services organization focused on the hotel, mixed-use, shared ownership, gaming, and leisure industries. Established in 1980, the company performs 4500+ assignments each year for hotel and real estate owners, operators, and developers worldwide. HVS principals are regarded as the leading experts in their respective regions of the globe. Through a network of more than 30 offices and 450 professionals, HVS provides an unparalleled range of complementary services for the hospitality industry. www.hvs.com

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