Cost Per Acquisition Report 2016

Growing your direct online sales

Fáilte Ireland
National Tourism Development Authority

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1.0 FÁILTE IRELAND INTRODUCTION

In 2015 alone, overseas visitor numbers increased 13.7% on the previous year.

Fáilte Ireland is delighted to bring you this ground breaking, first-of-its-kind report on CPA

Fáilte Ireland is the National Tourism Development Authority. Our role is to support the tourism industry and work to sustain Ireland as a high-quality and competitive tourism destination. We provide a range of practical business supports to help tourism businesses better manage and market their products and services. In that regard, Fáilte Ireland is delighted to have commissioned and produced this unique report on the complex and incredibly important subject of Cost Per Acquisition (CPA) within the hotels sector. Every business, regardless of the industry sector in which it is operating, is ultimately about one thing: profit. Profit (as distinct from turnover), is the one thing which determines not just the present, but the future direction of a business and is the difference between growing and stagnating.

Traditionally, hotels have been incredibly invested in fine-tuning and developing their sales and marketing functions, because they recognise that these are key functions in driving customer acquisition.

However, acquiring customers can be costly and the question is: how many hotel operators understand the concept of Cost Per Acquisition (CPA), what it is, how it works, and what it really means for their business?

If hotel operators are not already familiar with CPA then this report will be an invaluable tool to help them acquire customers at less cost, making them a whole lot more profitable for their business.

Knowing exactly what costs are involved is critical when it comes to realising the net profit on a room booking. If a hotel is spending 15% of each room booking revenue, for example, this clearly has a very significant impact on the business operation as a whole.

It is for this reason that we commissioned this report. We want to help hotel business owners and operators to better understand the concept of CPA by drawing on fact-based data gathered from a range of different leading global tourism industry experts.

However, as well as exploring in great detail the intricacies of the indirect bookings model, this report also looks extensively at own brand room bookings, because this is still a significant revenue driver for many Irish hotels.

We hope that this report helps to deliver even better, more efficient business processes and practices in the area of room bookings because, if it succeeds in this regard, its effects will be very wide reaching, widely impactful and extremely beneficial for Irish tourism as a whole.

Paul Keeley
Director of Business Development
Fáilte Ireland

2.0 COST PER ACQUISITION CPA

2.1 WHAT IS COST PER ACQUISITION?

Cost Per Acquisition (CPA) is an emerging metric used to inform a hotel owner about how much money has been spent in generating a room booking. In other words, CPA is a mechanism used to determine the total amount of money a hotel spends on each room booking.

However, the problem lies not in defining what CPA is, but rather how it can be made to work in practice in order to make hotels much more effective in understanding and managing revenue and profit. At the end of the day, [1]*"A Hotel's optimal channel mix takes into account the profile of demand drivers in its market and the cost of sales, so as to ensure optimal profit contribution and net revenue".*

1 Kalibri Labs - http://www.kalibrilabs.com/strategy/

2.2 AN OVERVIEW OF CPA AND ITS ROLE IN HOTEL ROOM BOOKINGS

The way in which a consumer makes a hotel booking is continuing to change at a break-neck speed as a result of the ongoing and rapid developments which continue to impact on ecommerce as a whole.

It's almost hard to believe that less than two decades ago travellers booked hotel bed nights directly with the hotel of their choice. In other words, the consumer sought out and booked directly with a particular "stay brand" of their choice.

In fact, this overstates the role of the consumer back then because, in reality, they didn't actually have to physically go and make the booking at all; in the era of the high street travel agent, the agent was the sole decision maker responsible for managing and organising every element of a client's holiday.

But of course the entire bookings model has changed completely. Now, in this digital age of instant information and online booking engines, the consumer has full control over every individual component of a holiday - including the hotel room bookings process.

More than anything, choice is now the key when it comes to room bookings; the customer now has a range of different online platforms to choose from when it comes to making a hotel room booking, including search engines, meta search engines, booking apps, direct bookings, and OTAs (Hotels.com, Expedia, Booking.com, for example).

Understanding implicitly the new bookings model, from the point of view of CPA, is now absolutely essential for every hotel business in terms of maximising their profit on sales. But it's about much more than that; it's about understanding the customer journey and experience, understanding exactly where bookings are coming from, and understanding exactly what commission rate is being charged by different OTAs / indirect booking sites, because these are all critically important when it comes to maximising profits on a room booking.

Ultimately, relying on one or two OTAs to generate bookings and paying them commission rates of up to 25% for the privilege is simply not good business practice. Why? Because with so many booking avenues now available, research and knowledge really is the key to achieving revenue success.

2.3 THE CHALLENGES PRESENTED BY ONLINE TRAVEL AGENTS (OTAS)

Every time an OTA secures a sale (i.e. room booking) on behalf of a hotel customer, they charge the hotel considerable commission of anywhere between 15- 25% of the booking price.

Since becoming an influential player in the bookings process in the 2000s, there are now a multitude of global OTAs (Expedia, Priceline, Booking.com for example), who generate their income based on earned commissions resulting from the sale of hotel rooms (as well as other tourist related services too, of course).

In other words, every time an OTA secures a sale (i.e. room booking) on behalf of a hotel customer, they charge the hotel a considerable commission of anywhere between 15- 25% of the booking price.

So the question is, are these global third party OTAs driving visitors, traffic, and bookings away from individual hotel websites, or are they simply providing a second booking revenue stream which works in tandem with hotels' own websites?

As it happens, there are two different schools of thought on this very subject: according to two separate studies funded by [2]Expedia, (October 2009 & April 2011), a hotel can expect to receive 3 to 9 bookings via its own brand website, for every one booked through Expedia.

However, a separate study commissioned by [3]AH&LA (September 2015), completely refutes this claim and finds almost the exact opposite to be the case: this report argues that travel shoppers visiting OTA websites do not return to hotel websites and instead continue to book through OTAs.

What is indisputable, however, is that in [4]2011 the ratio of rooms booked directly with a hotel via its own website, versus rooms booked through an independent third party OTA, was 4.3 direct bookings for every 1 indirect booking.

No matter which of these two schools of thoughts you choose to believe, one thing that is now indisputable is that booking brands (i.e. indirect booking platforms) as opposed to stay brands (direct hotel websites) are increasingly dominant over the consumer point of entry.

In summary, embracing rather than resisting these new booking channels is the key challenge that faces individual hotel brands. With so many booking channels now available, a hotel no longer has complete control over where a customer ultimately chooses to book a room.

Hotel owners and management teams need to strike a balance between their reliance on OTA's and pursuing their direct booking strategy. The reach and cost benefits of the OTA's and Meta Search distribution channels should be properly evaluated as part of a hotel's overall understanding of the CPA of each booked room.

2 http://scholarship.sha.cornell.edu/chrpubs/4
3 University of Maryland Center for Service Excellence, PK Kannan, February 2016, AH&LA Consumer Innovation Forum
4 Demystifying the Digital Marketplace: Spotlight on the Hospitality Industry, Kalibri Labs, Published by HSMAI Foundation

2.4 THE IMPACT OF OTAS ON THE TRADITIONAL BOOKING MODEL

It is only in the past few years that the hotel industry has begun to study the impact of OTAs in terms of CPA within the hotels market.

The first really important study examining the issue Cost Per Acquisition was carried out in 2013 by Kalibri Labs on behalf of HAMA (Hospitality Asset Managers' Association) for the US market; using data from 500 hotels from the period 2009 – 2012, this report found that [5]commission costs for hotels were rising at more than twice the rate of revenue growth.

[6]When this study was expanded to the entire U.S. with data from over 25,000 hotels and updated in early 2016, it became clear that this trend has continued unabated. Commission costs have continued to rise at two times the rate of revenue growth through 2015.

As a direct result of the changes to the way in which hotels are booked by consumers (i.e. through third party booking engines), HAMA found that CPA for hotels is now between [7]15-25% of the total revenue generated from each sale. When compared with a figure of 3-6% for airlines and 4-6% for car rental, this is very clear evidence that the high level of competition for sales in the hotel space results in a disproportionately high CPA.

Commissions on sales are also now skyrocketing: [8]2012 saw a 20% increase in revenue Vs 2009. However, in the same period, commissions on sales increased at a much higher rate of 37% (US Data).

Finally, HAMA reports that the discrepancy between OTA revenue as against cost has increased hugely between 2007 and 2013:

YEAR	NET INCOME	OTA COSTS
2007	25.4%	9.8%
2008	18.3%	15.1%
2013	25.1%	16.3%

Europe is now witnessing a huge growth in travel services being booked through third party OTAs.

5 Demystifying the Digital Marketplace: Spotlight on the Hospitality Industry, Kalibri Labs, Published by HSAMI Foundation
6 Demystifying the Digital Marketplace: Spotlight on the Hospitality Industry, Kalibri Labs, Published by HSAMI Foundation
7 Demystifying the Digital Marketplace: Spotlight on the Hospitality Industry, Kalibri Labs, Published by HSAMI Foundation
8 HAMA Europe 2015, Duetto Research

2.5 THE IMPACT OF THE DIGITAL AGE ON HOTEL BOOKINGS

In 2015 it was expected that OTAs would generate 25% of Europe's entire gross hotel bookings.

Some other very interesting new findings on the subject of OTAs, have been developed by global travel market research company, Phocuswright, culminating in their report entitled *The Digital Marketplace in Europe: Hotels and Third Party Intermediaries in the New Age of Travel.*

[9]According to this study, online travel revenue for Europe alone was expected to reach €125bn by 2015 and is projected to reach €147bn by 2017. Furthermore, Europe was predicted to surpass the US in total online travel penetration (47% Vs 45%), and is expected to reach 52% by 2017.

Europe is now witnessing a huge growth in travel services being booked through third party OTAs, increasing by 16% from 2014 to 2015 and reaching a whopping €54bn.

With regard to the hotel sector specifically, Phocuswright offers some equally fascinating figures which help to shine a light on the changes that are taking place:

[10]In 2015 it was expected that OTAs would generate 25% of Europe's entire gross hotel bookings. In addition, according to Phocuswright, independent hotels now make up 67% of Europe's entire room supply, with 71% of their total online bookings made through OTAs.

9 The Digital Marketplace in Europe: Hotels and Third Party Intermediaries In the New Age of Travel
10 The Digital Marketplace in Europe: Hotels and Third Party Intermediaries In the New Age of Travel

2.6 THE SALES PATH: WHERE ARE CUSTOMERS NOW MAKING ROOM BOOKINGS?

In terms of the purchasing journey for the hotel room customer, it is very clear that indirect booking brands now dominate the bookings markets over the traditional, direct "stay brands" which, in the past, represented the most important room booking channel.

What this means is that consumers are increasingly using third party (online) channels to first of all compare all of the many different stay brand offerings. In this way they can identify the best available deal to match their precise accommodation requirements.

As the range and diversity of different booking avenues continues to increase, it is anticipated that pressure will continue to come onto direct bookings with hotel own brand websites. The online platform is continuing to grow, evolve, and become ever more intuitive and as it does, hotels will need to become engaged in order to compete.

Already, this is very much in evidence: the indirect bookings model has already moved beyond the traditional OTAs that emerged with the development of ecommerce, and into the areas of social media, search and meta-search.

The online platform is continuing to grow, evolve, and become ever more intuitive

2.7 MANAGING CUSTOMER ACQUISITION COSTS

The first thing that all stay brands must do is become more informed and much better educated, when it comes to understanding the complexities of the online customer journey, and the various different sales avenues through which room bookings can now be made.

In order to remain competitive when it comes to attracting and acquiring customers, stay brands increasingly need to identify new ways of achieving an optimal channel mix.

For example, they can no longer afford to invest solely in their own online brand presence (i.e their own website and social media channels). Instead, they must also now invest their marketing / advertising budget in a range of other external channels, such as meta-search, Google AdWords, and SEO in order to become visible across the various different online booking channels used by customers.

Finally, it is now time for hotels to review their entire commission structures and processes, both in terms of the level of commission they are paying to booking providers, as well as the type of commission structures they have in place with their third party booking engine partners.

The reason for needing to do this is obvious: hotels, in reality, now operate a dynamic pricing model and yet many continue to offer static commissions on sales. With this in mind, perhaps it is time to move away from this approach and, instead, marry dynamic pricing with a dynamic commission structure that can better reflect the peaks and troughs (i.e seasonal) nature of hotel bookings?

Ultimately, one thing is for certain: hotels simply cannot afford to keep on paying out between 15-25% of the revenue they receive from each booking, as commission to third party booking operators.

Stay brands increasingly need to identify new ways of achieving an optimal channel mix.

11 Google – Travel and Tourism Ireland Quarterly Update, Q4 2015 – Presented March 2016

2.8 DISTRIBUTION CHANNELS: KEY GOOGLE HOTELS SEARCH DATA

Mobile queries grew by a massive 43% year on year.

[11]The most recent data from Google, on the subject of Travel and Tourism in Ireland, was presented in March 2016 and relates to Q4 2015. In this there are some fascinating insights offered in relation to the travel and tourism sector.

According to this report, searches grew by 16% in the travel and tourism category, year on year. However, what's even more interesting is the fact that desktop searches grew just 2%, tablet searches actually declined by 2% and mobile queries grew by a massive 43% YoY (Year on Year).

Further analysis of this Google data reveals even more about the state of play across the various different search platforms: When we look at desktop metrics in isolation, we can see that overall impressions are down over 13% (YoY) whilst Cost Per Click (CPC) is down 0.76%.

In stark contrast, impressions earned on mobile devices show a YoY increase of 33.12% and a CPC decrease of 11.26%, whilst tablets show that impressions have decreased YoY by 12.9%, and CPC by 12.9%.

*This subset of data alone reveals a great deal about the direction in which the hotel industry is headed: mobile devices are fast becoming the be-all and end-all when it comes to reaching the target consumer, while focusing on utilising mobile for customer acquisition is now obligatory for hotels looking to compete for customers.

11 Google – Travel and Tourism Ireland Quarterly Update, Q4 2015 – Presented March 2016

Calculating the Real Costs of Customer Acquisition: A Hotelier's Guide to Managing in the Digital Market

By **Cindy Estis Green** and **Matt Carrier**

Very often the visitor will begin their travel shopping journey on third party websites as opposed to with “stay brands”.

Calculating the Real Costs of Customer Acquisition: A Hotelier’s Guide to Managing in the Digital Market

By Cindy Estis Green and Matt Carrier

The hospitality distribution landscape has changed dramatically in recent years. Where once guests booked directly with hotel companies, what we call “stay brands,” now they have many choices when booking travel and hotel accommodation online.

Very often the visitor will begin their travel shopping journey on third party websites as opposed to with “stay brands”. We refer to these third parties as “booking brands”, such as online travel agencies and metasearch engines.

Although the transaction may not be consummated on one of these booking brand sites, they are essentially stepping stones which ultimately lead to the final action, ie the hotel room purchase.

Each of these stops along the shopping path represents a toll booth where the hotel is paying a fee to either acquire a customer or to maintain a prominent position from which they can influence the travel shoppers’ ultimate purchase decision.

So together, the fees that are paid to these toll booths add up to what we refer to as customer acquisition costs or cost per acquisition (CPA).

Booking Costs
Commissions & Transaction Fees

Travel Agency

Expedia Booking.com Sabre VISA

Shopping Costs
Sales and Marketing Expences

SEO Google

f in g+ YouTube

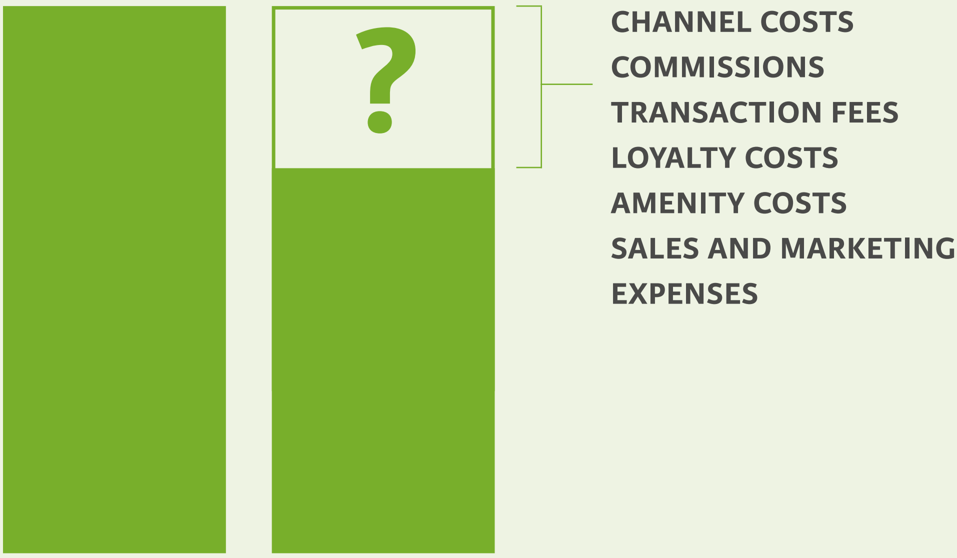
Customer acquisition costs are one of the fastest rising expenses for hotels. However, despite this, many of these costs do not show up on a Profit & Loss (P&L) statement, making them very difficult to track. Moreover, even when they are identified, they are typically allocated across several different departments.

The costs that are absent from the P&L are incurred when consumers buy from a wholesale operator or merchant model online travel agent (OTA). In this situation, the customer simply pays the wholesaler or OTA directly, and then the wholesaler or OTA pays an agreed net rate to the hotelier, which is typically the amount posted to a hotel's financial statement.

While that business may not otherwise have come to the hotel, the difference kept by the wholesaler or OTA is the commission and it is a real and substantial expense to the hotel.

Customer acquisition costs are one of the fastest rising expenses for hotels.

Acquisition costs need to be managed



This amount needs to be recorded and total costs aggregated for management use, even if accounting guidelines don't allow for it to be on the P&L financial statement.

For over 20 years hospitality revenue management has focused on room rate optimization and inventory management.

To evaluate the revenue performance of a hotel we need to first accurately identify all of its customer acquisition costs. Guests can ultimately only book via one channel but the reality is there is a wide and varied choice of online channels available to them when it comes to ultimately making the booking.

As a result, acquisition costs are simply a combination of both the direct costs associated with the booking, and the different costs that support the shopping process:

- Booking costs are the direct costs triggered when a booking occurs, such as commissions and transaction fees. These are costs that a hotel pays for each individual booking as it is made.

- Shopping costs, on the other hand, comprise all other costs that are typically associated with sales and marketing efforts, including paid search, meta-search business listings, and social media activities. These costs are spread out and not incremental per booking.

- Total customer acquisition cost includes booking costs as well as shopping costs.

Developing a revenue strategy

After identifying all of the various different booking and shopping cost, a hotelier can then begin to develop an effective revenue strategy as a result of the following 4 key new metrics:

1. **Revenue Capture (Guest Paid Revenue & Net Revenue)**
2. **Net RevPAR**
3. **Contribution to Operating Profits and Expenses (also known as "COPE")**
4. **Sales and Marketing Efficiency**

Revenue Strategy Defined

For over 20 years hospitality revenue management has focused on room rate optimization and inventory management.

However, the challenges posed by a changing marketplace – one in which consumers have moved increasingly into digital channels - demand that revenue management take on a much broader scope to optimize profit contribution.

Today, significantly fewer bookings are made directly with hotels in comparison with the past ten years for the simple reason that consumers now tend to do their travel shopping largely through digital channels. In the U.S. in 2015, for example, roughly 32% of transient bookings came direct to the property versus digital channels or call centres. However, even when guests do make a booking through a direct channel such as a hotel's website or toll-free telephone number, they often use third party intermediaries as information sources in the lead-up to the final booking decision.

Depending on the compensation model, this research process can incur costs even when the booking is 'direct' to a hotel, such as a meta-search booking completed after gathering information through a search engine.

For more info... **http://www.failteireland.ie/Market-Your-Business-Online/Digital-sales-resources/Digital-marketing-article/Understanding-the-path-to-purchase**

"Revenue strategy is the integration of all disciplines targeting revenue generation along with a focus on costs associated with the acquisition process."

Establishing a revenue strategy requires a hotel to identify not just the sources it will use to generate business, it must also look at how much money it will require to deliver that required level of business, as well as how much money will be left over to cover operating costs whilst still delivering a profit.

"At the heart of Revenue Strategy is setting the objectives for a hotel's optimal channel mix".

The role of a revenue strategist is to assess the demand drivers in a market and integrate the tools of yield management, direct sales, and digital and brand marketing to achieve the hotel's targeted profit contribution.

There are some questions you can ask while establishing an optimal channel mix target:

- **Will we have enough revenue?**
- **How much will we have to pay to get this revenue?**
- **Have we fully assessed all demand drivers in the market?**
- **Are these sources of business realistic for my hotel?**
- **Is the current business mix of the hotel sustainable?**
- **What reaction can I expect from competitors to my efforts?**

European hotels are still enjoying higher levels of direct business based on feedback from numerous Irish & UK Revenue Management Experts.

Very often the visitor will begin their travel shopping journey on third party websites as opposed to with "stay brands".

KPI 1 - Guest Paid Revenue

Guest paid revenue is the amount the guest actually pays to book a room at your hotel, regardless of to whom the payment is made; ie whether payment is being made to a third party - such as a wholesale operator- or directly to the hotel.

As discussed earlier, net rate bookings made with a third party need to be "grossed up" to include the mark-up added by the wholesaler or online travel agency. When the mark-up rate is unavailable, in the case of static wholesalers for example, this figure can be estimated for the purpose of calculating total costs.

This gross up amount or "wholesale commission" will show the total amount the guest paid for a room at your hotel when booking through a third party. This may apply to traditional wholesalers or online travel agencies selling merchant model or opaque rates.

For example:
A guest books through a merchant model online travel agency and pays the OTA €200, plus VAT, including a contracted mark-up rate of 20% that was previously agreed upon by the hotel with that online travel agency.

- Your hotel collected revenue is recorded on your hotel's profit and loss statement as €160 from the guest, but €218 is what the guest actually paid, (inclusive of VAT @9%)
- The OTA collects its €40 commission before the guest even enters your hotel
- There is no place to record the €40 as a customer acquisition expense so hotel accountants need to start accounting for these acquisition expenses

This is the undocumented cost of a wholesale commission that is paid by the guest but is not reflected on the P&L report.

Guest Paid Revenue = Hotel Collected Revenue + Wholesale Commissions

Calculating Guest Paid Revenue will give a more accurate measurement of hotel revenue and rate potential because it helps the hotelier understand what consumers are willing to pay.

KPI 2- Revenue Capture & Net Revenue

Net Revenue is the revenue a hotel keeps after all acquisition costs are removed, (COMMA) including any relevant taxes.

Revenue Capture, on the other hand, is the percentage of room revenue which the hotel gets to keep, after the acquisition costs have been removed.

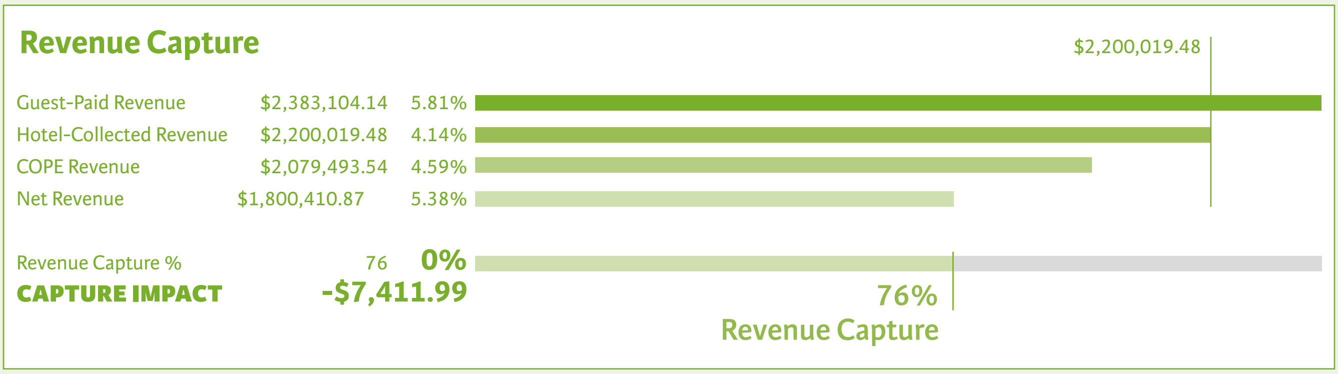
Net Revenue is calculated by removing wholesale commissions, retail commissions, transaction and channel costs, loyalty costs, and sales & marketing expenses – including sales and marketing payroll – from the Guest Paid Revenue.

Revenue Capture is calculated by dividing the net revenue by the guest paid revenue (net revenue being exclusive of VAT).

Net Revenue / Guest Paid Revenue = Revenue Capture %

Revenue Capture moves beyond top-line revenue evaluation and gives the hotel a performance-based analysis of what and how much revenue is truly kept after customer acquisition costs are paid.

Customer acquisition costs are one of the fastest rising expenses for hotels.



Net RevPAR looks at how much Net Revenue has been generated per available room, after taking into account all the costs involved in acquiring that guest.

KPI 3 - Net RevPAR

Net RevPAR looks at how much Net Revenue has been generated per available room, after taking into account all the costs involved in acquiring that guest.

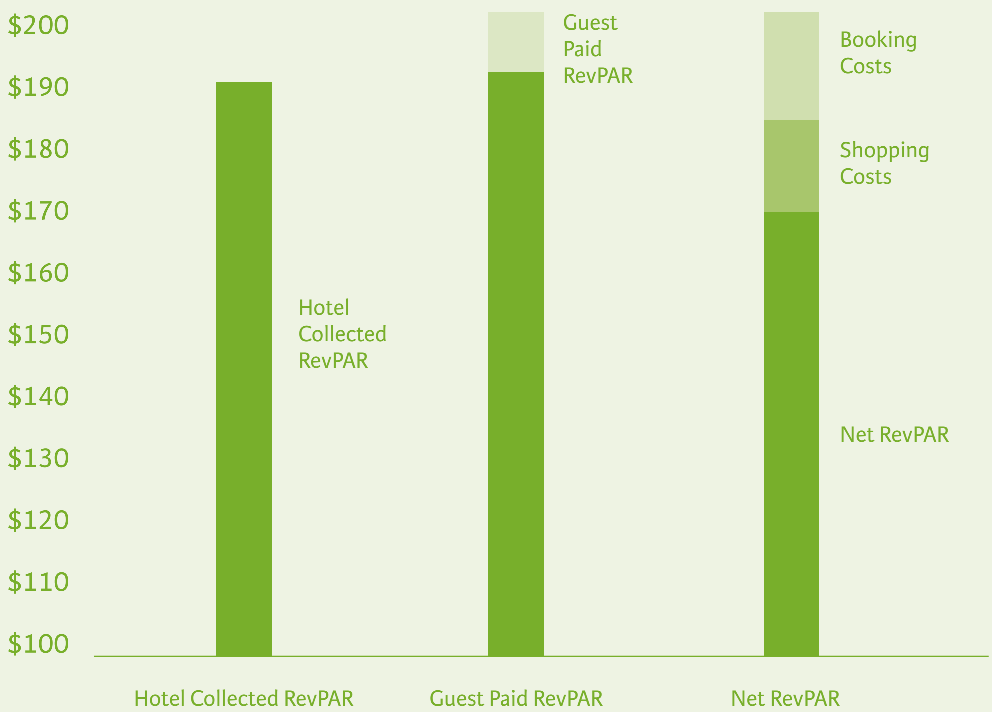
It is a fundamental metric for evaluating the performance of a hotel, while taking cost of acquisition into account. The formula for calculating Net RevPAR is as follows:
Net RevPAR = (Guest Paid Revenue – Total Acquisition Costs) / Available Rooms

**Guest Paid Revenue = the amount the guest is paying for a room, net of VAT.*

**Acquisition Costs = Shopping Costs (sales and marketing expenses) plus Booking Costs (commissions and transaction fees)*

**Available rooms = the total number of rooms available to sell in the hotel over a given period of time.*

Once you understand the Net RevPAR performance of your hotel you will have a great starting point for measuring your cost of acquisition.



Net RevPAR reveals the true impact of the distribution choices a hotel makes. "Top line" or "Hotel Collected Revenue" can mask potentially detrimental decisions by not taking all acquisition costs into account. A case study based on actual Kalibri Labs data follows to highlight this.

Net RevPAR reveals the true impact of distribution choices a hotel makes.

Net RevPAR Example:

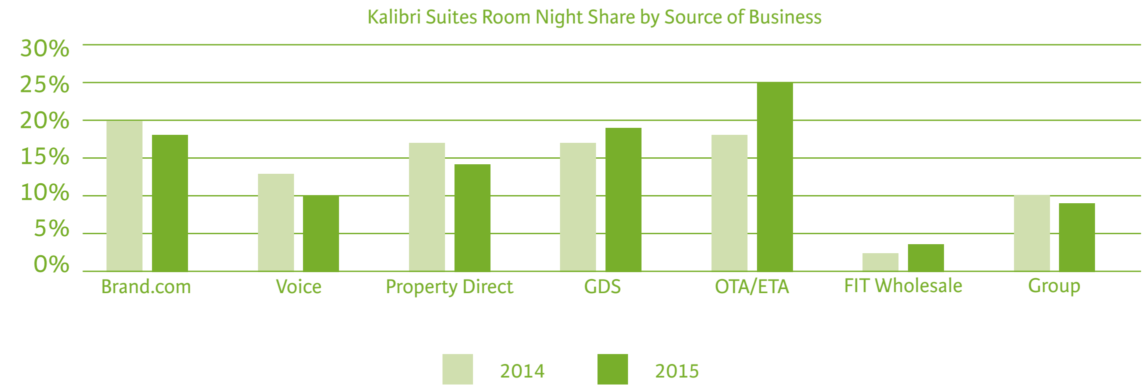
This hotel in the example that follows, evaluated its performance from year to year, after they made a strategic decision to increase occupancy by relying much more heavily on OTA business, than they ever had before. The results appeared positive: while they lost ADR, they were able to drive Rev PAR.

2% year over year top line revenue growth

Kalibri Suites	2014	2015	Change %
Hotel Collected Revenue	€5.4m	€5.5m	2%
Hotel Collected ADR	€166	€163	-2%
Hotel Collected RevPar	€129	€132	2%
Occupancy%	78%	81%	4%

The hotel heavily shifted their channel share from year to year as seen below:

OTA room night growth driving occupancy gain



Booking costs can be associated with individual channels, segments, and rate codes because each booking incurs these costs directly.

On the surface, using traditional revenue metrics, this strategy appears to have been successful. However, when we dig a little deeper using the Net Revenue model, we can see there was a real cost increase incurred by this property. This in effect cancelled out any revenue gain and, in fact, lost the hotel money year-over-year on the basis of profit contribution as evidenced by lower net revenue and lower net RevPAR.

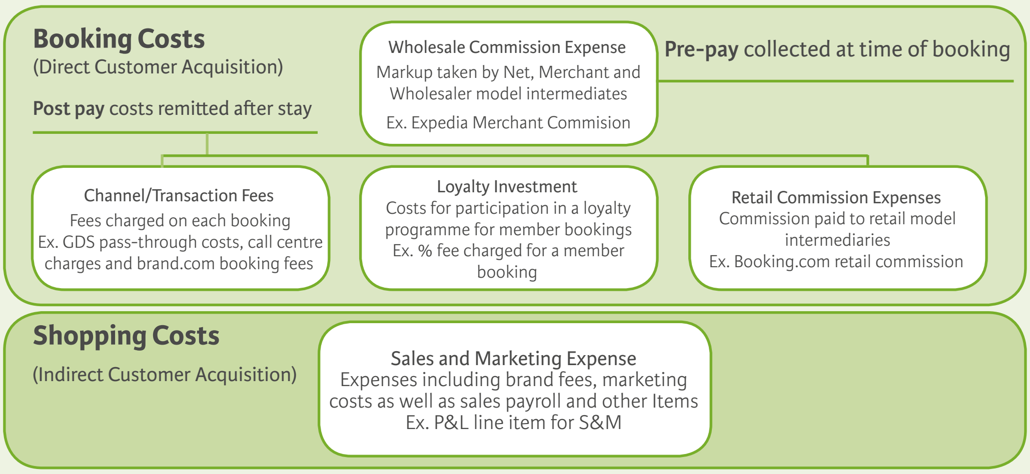
Kalibri Suites	2014	2015	Change %
Net Revenue	€4.5m	€4.4m	-2%
Net ADR	€157	€148	-5%
Net RevPAR	€122	€120	-2%

This case, based on actual hotel data, highlights the importance of having a firm focus on the Revenue Capture of a hotel because it asks the following very pertinent question:

Of the revenue paid by a guest, what percent does the hotel ultimately keep?
Two additional diagnostic metrics, COPE % and Sales and Marketing Efficiency, will help to further drill down into specific areas of opportunity for improvement.
Booking comparator info at http://www.failteireland.ie/Market-Your-Business-Online/Online-Booking-Comparator

These metrics look at the two components that make up acquisition costs: booking cost (direct transaction costs), (COMMA) and shopping costs (indirect sales and marketing expenses). Booking costs can be associated with individual channels, segments, and rate codes, because each booking incurs these costs directly.

Shopping costs cannot be accurately allocated to a specific booking as they often support the customer shopping journey more broadly across many booking channels. While you still want to carefully manage these costs, it is most effective to allocate them against the hotel's overall revenue performance, instead of trying to assess the portion that may apply against an individual channel, segment, or booking.



KPI 4 - COPE

COPE is an acronym for Contribution to Operating Profits and Expenses. How does each hotel COPE with their distribution costs?

COPE % = (Guest Paid Revenue – Transaction-specific Costs) / Guest Paid Revenue

COPE % measures the percentage of net revenue that is produced by each channel, after removing those costs which are triggered only when the transaction is consummated, including commissions, transaction fees, channel costs and brand loyalty costs.

Removing only these specific, direct costs allows an analysis of profitability at the channel, segment, rate code or individual booking level.

But what does that really mean? Let's say your hotel's total COPE percentage is 86%; this means that you only keep 86% of what the guests paid. That cost is incurred before the guest ever checks in and before sales and marketing expenses are removed. In other words, this calculation includes the direct booking costs but not overhead sales and marketing costs, such as sales payroll.

This overall performance is dictated by the hotel's channel mix. Identifying the revenue retained in each channel is the first step towards higher profit contribution through an improved channel mix.

However, after evaluating the direct booking costs associated with each guest stay (e.g. OTA commission costs), you can then examine the various costs - that may be diffused across several channels - that support the customer's shopping journey, including sales payroll, social media and other indirect, but necessary, costs paid to ensure your hotel is top of mind for guests coming into your market.

Identifying the revenue retained in each channel is the first step towards higher profit contribution through an improved channel mix.

Sales and Marketing Efficiency measures how much revenue is generated for every Dollar /Pound /Euro spent on sales and marketing.

KPI 5 -Sales and Marketing Efficiency

Sales and Marketing Efficiency measures how much revenue is generated for every Dollar /Pound /Euro spent on sales and marketing. Essentially, this metric evaluates how efficiently a hotel is able to generate revenue, which is the ultimate goal of any sales and marketing spend.

The formula which determines Sales and Marketing Efficiency is as follows:

Sales and Marketing Efficiency = (Guest Paid Revenue LESS transaction-specific Booking Costs) / Sales and Marketing Expenses

So, for example, if your hotel has a sales and marketing efficiency of €12, this really means that you generate €12 in net revenue * for every €1 spent in the area of sales and marketing.

So, for example, if your hotel has a sales and marketing efficiency of €12, this really means that you generate €12 in net revenue * for every €1 spent in the area of sales and marketing.

Kalibri Labs data shows hotels in major markets, such as the US for example, may have Sales and Marketing Efficiency metrics between €5 and €25 for every €1 spent in sales and marketing. *After transaction-specific booking costs are removed.

As it may take time for sales and marketing initiatives to yield results in any market, hotels often spend sales and marketing funds several weeks, or even months ahead of the revenue that is accrued from them. As a result, it is best to view this metric over time in a trend line. In addition, it helps that you understand your hotel's spending, relative to its revenue, because once you do, this can help to "right size" the sales and marketing budget.

For example, a hotel's Sales and Marketing Efficiency could look deceptively positive if spending is cut in the short-term, leading to longer-term negative results.

Typically in Europe, a hotel would spend approximately 4% of total sales on sales and marketing activities. However, this can vary significantly, depending on the brand or hotel ownership structure. For example, a hotel with a €5m turnover should ideally spend €200k on all sales, marketing, and PR activities (excluding payroll). A simple first step in working out your Sales and Marketing Efficiency would simply be to divide your total sales and marketing expenses by the total number of rooms sold. This then gives you your total sales and marketing costs, per room sold. You can then compare this against net revenue generated from your sales and marketing activities (after transaction specific costs), to work out the Sales and Marketing Efficiency.

This is why Sales and Marketing Efficiency, along with Revenue Capture and Net RevPAR, should all be looked at over time, rather than just in the present. Doing so will ensure that not only is the hotel efficient at generating its revenue, it will also ensure that it is meeting its targets on absolute revenue.

In terms of how to begin, one very simple first step to finding out your Sales & Marketing Efficiency would be to divide your hotel's total sales and marketing expenses by the total number of rooms sold, giving you the sales and marketing costs breakdown per room sold. From here, just compare this figure against net revenue generated from Sales and Marketing activities (after transaction specific costs), to work out the Sales and Marketing Efficiency.

Bringing It All Together

Managing a hotel's revenue capture is the foundation for improving profit contribution, where contribution refers to sales minus variable costs (i.e what is left over to pay your fixed costs).

By gaining a better understanding of the real costs of customer acquisition, and by more accurately identifying the various sources of demand in a market, a hotel management team can shift focus from top line revenue to net revenue, enabling a more efficient approach to revenue generation.

Net RevPAR evaluates a hotel's overall net revenue performance, Revenue Capture quantifies the efficiency with which the hotel's revenue is generated, COPE % guides channel goals and opportunities, and Sales and Marketing Efficiency helps tune a hotel's sales and marketing spend that is diffused efficiently across multiple channels.

Hotels can begin applying Net Revenue theories with the following actions:

- **Measuring Net Revenue performance on a monthly basis along with the impact of shifts in channel mix on Net Revenue performance**
- **Implementing and measuring tactics focused on optimizing the hotel's channel mix**
- **Utilizing Net Revenue metrics, Net RevPAR and Net ADR, to evaluate the success of the hotel team**

Identifying a hotel's Optimal channel mix is a very necessary step in managing both the mix of demand coming to a hotel, as well as cost effectively managing the costs that are necessary in order to acquire that level of demand.

Identifying a hotel's Optimal channel mix is a very necessary step in managing both the mix of demand coming to a hotel

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REVENUE TYPES AND DEFINITIONS

- **Guest-Paid Revenue**
  The amount a guest actually paid to make a booking. Guest-Paid Revenue accounts for intermediary mark-ups on top of Hotel-Collected Revenue and reflects the amount paid either to a hotel directly or to a third party who collects it for a hotel and remits a net or merchant rate to the hotel.

- **Hotel-Collected Revenue**
  The amount of revenue a hotel actually collected and recorded in their financial statements. Hotel-Collected Revenue does not account for intermediary mark-ups applied to wholesale and merchant model business.

- **COPE Revenue**
  Revenue (Contribution to Operating Profits & Expenses) after only direct reservation costs are removed. These costs include commissions and transaction fees, as well as other costs incurred as a direct result of a booking. This does not include Sales and Marketing Expense. COPE Revenue equals Guest-Paid Revenue minus Channel/Transaction Fees, Retail Commissions, Wholesale Commissions, Travel Agent Amenity Expenses and Loyalty Investment.

- **Net Revenue**
  Revenue after all acquisition costs have been removed. These costs include both costs associated with individual bookings, i.e. commissions and transaction fees, as well as general sales and marketing costs that are not associated with specific bookings. Net revenue equals Guest-Paid Revenue minus Channel/Transaction Fees, Retail Commissions, Wholesale Commissions, Travel Agent Amenity Expenses, Loyalty Investment, and Sales and Marketing Expense.

ADR* DEFINITION

- **Guest-Paid ADR**
  Guest-Paid Revenue divided by Consumed Rooms.
  Guest-Paid ADR tracks only the revenue gained on what the guest actually paid.

- **Hotel-Collected ADR**
  Hotel-Collected Revenue divided by Consumed Rooms.

* Average Daily Rate

- **COPE (Contribution to Operating Expenses) ADR**
  COPE Revenue divided by Consumed Rooms.
  COPE ADR incorporates only transaction-specific direct reservation costs.

- **Net ADR**
  Net Revenue divided by Consumed Rooms.
  Net ADR incorporates all guest acquisition costs.

REVPAR DEFINITIONS

- **Guest-Paid RevPAR***
  Guest-Paid Revenue divided by Available Rooms.
  Guest-Paid RevPAR tracks only the revenue gained on what that the guest actually paid.

- **Hotel-Collected RevPAR**
  Hotel-Collected Revenue divided by Available Rooms.

- **COPE RevPAR**
  COPE Revenue divided by Available Rooms.
  COPE RevPAR incorporates only transaction-specific direct reservation costs.

- **Net RevPAR**
  Net Revenue divided by Available Rooms.
  Net RevPAR incorporates all guest acquisition costs.

COPE AND COPE % DEFINITIONS

COPE

Contribution to Operating Profit and Expenses is a numerical expression which has had transaction- specific direct reservation costs removed from the original figure. Transaction-specific direct reservation costs are Channel/Transaction Fees, Retail Commissions, Wholesale Commissions, Travel Agent Amenity Expenses and Loyalty Investment.

COPE %

COPE % is the proportion of revenue generated net of transaction-specific direct reservation costs expressed as a percentage. COPE % does not include any Sales and Marketing Expenses. COPE % is calculated by

* Revenue per available room

taking Guest-Paid Revenue and subtracting transaction-specific direct reservation costs then dividing by Guest-Paid Revenue. COPE % can also be represented by dividing COPE Revenue by Guest-Paid Revenue.

COST CATEGORIES

- **Channel/Transaction Fees**
  Channel and Transaction Fees include costs to connect to a given channel and costs for bookings made through specific client provided codes. Typically, Transaction Expenses are used for fees on negotiated bookings or specific deals with travel agencies, corporations, or consortia. Kalibri Labs tracks channel costs for Brand.com, GDS, Voice, and Property Direct bookings. Costs can be applied as a flat fee and/or a percentage of the booking revenue.

- **Retail Commissions**
  Retail Commissions include commissions from bookings that are from travel agencies using the retail or hotel-collect commission model. In this commission model, the hotel knows the full price of the booking and the amount of commission charged by the intermediary on that booking.

- **Wholesale Commissions**
  Wholesale Commissions include commissions from bookings that are from travel agencies marked as net, opaque, and wholesaler. In this commission model, the hotel does not know the full price of the booking, only what the hotel sold rooms to the intermediary for and the commissions on those rooms for the hotel-sold price. The hotel never knows what the guest actually paid, and subsequently does not know what was "left on the table" for the hotel room in this model. This category of commission includes internet merchant model commissions.

- **Amenity Expenses**
  Amenity Expenses include dining credit, spa credit, free internet access, welcome amenities, and beverage credit. Additionally, this category of fees can be used for Travel Agent Amenity Expenses which include flat and percentage fees for bookings made through Travel Agents that charge specific amenity fees. Some travel agencies that commonly utilize these fees are Virtuoso, American Express, and Fine Hotels and Resorts.

- **Loyalty Investment**
  Loyalty Investment includes costs paid for guests that book while utilizing their loyalty program memberships. These costs typically include the cost of loyalty points, loyalty amenities, and loyalty services.

- **Sales and Marketing Expense**
  Sales and Marketing Expense includes any sales and marketing activity that would appear on a profit and loss statement including but not limited to sales and marketing payroll, online advertising, social media, and other costs that support the guest acquisition effort but are not clearly associated with a particular booking channel or specific transaction.

  Since Sales and Marketing Expense are costs diffused across multiple channels and are not associated with a specific reservation, they are not applied against any specific booking channel. Sales and Marketing Expense is deducted from COPE Revenue to derive the Net Revenue metric.

INDUSTRY TERMS AND DEFINITIONS

- **Available Rooms**
  Count of hotel rooms available for sale during a given date range.

- **Consumed Rooms**
  Room Nights or the count of hotel rooms booked and paid for during a given date range.

KALIBRI LABS TERMS AND DEFINITIONS

Direct vs. Indirect Booking Channels

Kalibri Labs considers Brand.com, Voice, and Property Direct Booking Channels to be Direct Channels. Indirect Channels are Global Distribution Systems (GDS) and Online Travel Agencies (OTA).

- **Revenue Capture**
  Revenue Capture is the percentage of Guest-Paid Revenue retained by the hotel after transaction-specific direct reservation costs and Sales and Marketing Expenses are deducted. Revenue Capture is calculated by taking Guest-Paid Revenue and subtracting Booking Channel Expenses, Retail Commissions, Wholesale Commissions, Travel Agent Amenity Expenses, Transaction Expenses, Loyalty Investment and Sales and Marketing Expense then dividing by Guest-Paid Revenue.

- **Transaction-Specific Direct Reservation Costs**
  Channel/Transaction Fees
  Retail Commissions, Wholesale Commissions
  Travel Agent Amenity Expenses
  Loyalty Investment

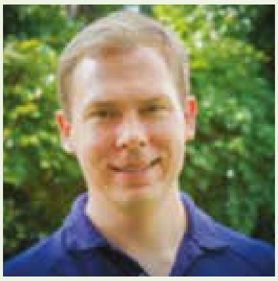
- **All Guest Acquisition Costs**
  Channel/Transaction Fees
  Retail Commissions, Wholesale Commissions
  Travel Agent Amenity Expenses
  Loyalty Investment
  Sales and Marketing Expense

Authors' Biographies

Cindy Estis Green

Cindy Estis Green's career began in corporate marketing and senior operations roles for Hilton International. After starting up the data mining analytics firm, Driving Revenue, and selling it to Pegasus Solutions, Ms. Green spent twelve years as managing partner of The Estis Group providing strategic marketing consulting to the hospitality industry. Co-author of the 2012 Dis¬tribution Channel Analysis: A Guide for Hotels and many other industry publications on the topic of marketing technology, Estis Green has been honored as one of the 25 Extraordinary Minds in Sales and Marketing, was inducted into the prestigious Hospitality Technology Hall of Fame and named as one of Cornell University's 90 Influential Hoteliers. She is currently a member of the HITEC Advisory Council, leads the AH&LA Consumer Innovation Forum, the European Hotel Forum, and holds a board seat for The Knowland Group and the Hospitality Financial and Technology Professionals (HFTP).

Ms. Estis Green launched Kalibri Labs in 2012, a next generation benchmarking platform for the digital marketplace evaluating hotel revenue performance. Using innovative big data tech¬niques, Kalibri Labs helps hotels manage the cost of customer acquisition and optimize profit contribution. Estis Green holds a BS degree from Cornell University and an MBA from The American University.



Matt Carrier

Matt Carrier spent three years as a part of Marriott's Channel Strategy and Distribution working on a variety of initiatives in the online hotel distribution space. These included both industry-wide efforts and product lines within Marriott. He received a BS from the Cornell University School of Hotel Administration and currently serves as the Vice President of the Washington, DC/Baltimore Cornell Hotel Society Chapter.

4.0 KEY INDUSTRY EXPERT OPINIONS

4.1 BOOKASSIST

In order to secure booking via a hotel's own website, that customer must first have been directed to that website.

While every hotel business will understand that there is a cost behind every sale, the manner in which this cost is calculated is not quite as straightforward as it often appears to be. Often this is because sales are simply not analysed individually, or sufficiently broken down into the various different cost components.

Examining the various different customer booking channels:

(i) Direct Bookings

In order to secure booking via a hotel's own website, that customer must first have been directed to that website wither through search, through prior knowledge of the hotel, or through paid online advertisement.

In other words, significant investment is required by hotels in their own websites, if these websites are to be effective in terms of generating income:

Pay for search engine optimisation (SEO) to attract online traffic
Pay for Pay Per Click advertising to create awareness online
Pay for social media management and engagement
Pay to build and subsequently upgrade your website to keep abreast of new technology
Pay a booking engine fee in order to be able to physically process bookings through the site
Pay for CRM which is required to create and run email marketing campaigns
Pay for ongoing marketing for the purpose of brand building
Pay a marketing team to manage maintain and develop all of the above

But of course, though all of these costs are simply a business requirement in the context of generating bookings through a hotel's own website, all of these costs tend to be viewed as budgeted sums on a quarterly basis.

This of course means that each of these individual and separate costs tend to be bundled together and viewed, by the financial controller, as one very large overall online marketing cost which needs to be reduced. And because (s)he will already have a budget set out for "digital marketing" in a very broad sense, the danger is that (s)he will suggest savings in the wrong areas in order to balance the books.

As a result, spend on direct customer acquisition is inherently self-limiting because the tendency is to keep spend low at all costs, which can inevitably be counter-productive when it comes to actually winning bookings online.

(ii) Indirect bookings: OTAs and Others

When dealing with external sources of reservations such as OTAs, the CPA can often appear to be a simple percentage commission. On average this is approximately 18%, in the case of the bigger players.

What very often happens is that hotels are content to release ongoing availability to OTAs and allow them to sell as much as possible on their behalf. And why is this? Because it invariably leads to higher incoming revenues (OTAs can sell more rooms), and therefore higher occupancy for the hotel at no perceived risk.

However, just as things can sometimes appear to be too good to be true, the perceived "simplicity" of this approach does have some downsides as far as hoteliers are concerned.

For example, opening the floodgates to OTAs means there is no equivalent budgeting process in place, as is the case with the direct booking model. Instead, commissions are paid as soon as a booking has been made; this in turn means that hotels have no budgetary system in place to tell them how far they should be prepared to go in funding this approach.

The result of all of this is the exact opposite of the direct booking revenue model: spend on indirect acquisition in many hotels is unlimited simply because costs are incurred on a post-sale or cost of sale basis and are therefore not budgeted for in advance.

How to monitor & how not to monitor

From what has been shown above, it is very clear that the direct booking model and the OTA model are almost complete opposites of each other in terms of how they work.

Whereas direct bookings require pre-sale spends which are subject to budgetary scrutiny (even before the bookings have been achieved), OTA commissions are purely a post-sale cost, which varies according to bookings received.

Effectively, what happens is that hotel & revenue managers tend to inadvertently favour the OTA model, for the following reasons:

1. Revenue managers / GMs are often incentivised to bring in revenue, but not necessarily at better margin. For this reason they may not particularly favour direct business.
2. Revenue managers and GMs may be incentivised on occupancy, but not in conjunction with improved margin. For this reason they may not favour direct business.
3. Pushing for more direct business usually means pushing for more budget to spend. This is often an unpopular move for Marketing managers

OTA commissions are purely a post-sale cost, which varies according to bookings received.

Consider spends on direct business as cost of sale issues as opposed to marketing budgets

The best ways to effectively manage your CPA:

To monitor and manage your CPA effectively, and to ensure that you are weighing up the pros and cons of both OTA and direct bookings models, here are some simple helpful tips that will help:

1. Make sure your accounting practices break out commission spends per operator so that they are clearly visible when discussing budgets
2. Look at spend on direct acquisition in terms of cost per booking rather than looking at just the total budgeted figure
3. Consider spends on direct business as cost of sale issues as opposed to marketing budgets
4. Incentivise relevant staff on the profit per available room (ProPAR), not on the more typical revenue per available room (RevPAR), since the latter encourages OTA usage

Total Overall Costs:			
Average Booking Value:	€ 250		
Total # annual direct bookings:	1000		
Total PPC spend:	€5000		
Total website design / maintenance:	€2500		
Total Booking Costs			
PPC (per direct booking):	€5000 / 1000	=	€5 (2%)
Website costs (per booking):	€2500 / 1000	=	€2.50 (1%)

In summary then, it is the per-booking figures rather than the total figures, which should be driving consideration of the spend on direct booking:

1. **PPC spend should not be viewed as a flat €5000 cost – it's actually just a €5 cost per booking.**
2. **The website should not be viewed as a flat €2500 cost – it's actually just €2.50 per booking.**

How to improve performance on direct booking and decrease CPA:
In light of the above example, it is clear that direct bookings, when looked at on a purely individual basis, can deliver a much lower CPA than those which are secured indirectly via a third party reseller.

However, do note that this assumes a commitment to ongoing investment in the website since the CPA in respect of the direct model reduces in line with corresponding increases in actual booking numbers.

Essentially what we're saying is that, whilst the overall total cost of individual activities as set out in the overall budget won't change, the CPA on each sale can reduce (or increase), in line with sales. So, once again citing the example from the previous page, if the hotel were to raise its direct bookings from €1000 to €1250, the website cost per booking reduces accordingly from €2.50 per sale to just €2.

This concept is in contrast with the indirect model where a flat rate commission applies to each and every sale, regardless of how many sales are made.

Other CPA considerations

1. Lost Opportunity
Another primary consideration in CPA discussions is the cost of the lost opportunity in ceding business to OTAs. OTAs relentlessly market and remarket to customers who book through them. In this way, OTAs are in fact building their own strong brand following and loyalty by using a hotel's own discounted rates to attract customers to their website. In other words, hotels are paying for the development of OTA's strength in loyalty by offering them discounted or "private" rates.

OTAs leverage customer data far better than hotels typically do. They are adept at up-selling and reselling and specialise in capitalising on the lifetime value of their loyalty. As a result, the cost of ceding a customer to an OTA can be far worse in the long term, than the initial variation in cost of sale between direct Vs OTA business.

2. Displacement
In examining OTA business it is also important to consider how much of it was business that you could never have otherwise secured (a good thing as OTAs should be paid for bringing in this type of business), versus how much of it was business that you should have been able to get directly yourself (not deserving of the hefty OTA fee).

There is a strong argument for sliding scales of compensation for OTAs based on the kind of business they are generating for a hotel. If the customer is from a country/segment you can never reach and your occupancy has risen because of the business, then the fee is probably worth it. If however the OTA has used your brand name to divert a potentially direct-booking customer to their website, then you are effectively paying an OTA for a service that you simply don't need.

There is a strong argument for sliding scales of compensation for OTAs based on the kind of business they are generating for a hotel.

4.2 NET AFFINITY

It's important to understand where your marketing activity sits within the AIDA model.

What costs should be accounted for when calculating CPA?

In the case of direct bookings, CPA should be calculated taking into account the total cost involved in the sale; in other words, it should consider any marketing spend + any fees / commissions added to a booking.

In the case of an indirect booking channel however (an OTA for example), the CPA can be determined by knowing the commission % paid out in order to receive a booking through the channel in question.

What are the key factors affecting CPA?

We have identified 5 key factors which should be carefully considered, when calculating with accuracy, the CPA in respect of a hotel room booking:

1. Cost of advertising

More expensive channels generally lead to higher CPAs. However, this is not always the case.

For example, an expensive channel may drive highly targeted and engaged traffic which converts stronger than lower cost channels.

2. Competition

Competition for traffic can have a direct correlation with CPA.

For example: On Google AdWords, increased competition from booking.com on brand.com campaigns, will increase the cost of advertising the brand and compete for advert impression share, potentially driving up the CPA.

3. Where the channel sits within the path to purchase

It's important to understand where your marketing activity sits within the AIDA model (Awareness, Consideration, Intent, Decision)

Activity at the 'Awareness' end, such as social media and display advertising, will generally have a higher CPA.

However, **activity at the 'Intent end'** of the funnel, such as meta-search and branded campaigns on Google AdWords, will have a lower CPA.

It's important to fully understand that activity at each stage of the funnel impacts other stages. Monitoring 'assisted conversion' and 'view through conversions' help to prove this fact.

4. Lack of data

Lack of cross-device tracking / data can impact your true CPA data.

For example, if you drive traffic through one device but a user converts on another device, it becomes difficult to calculate the true CPA per channel as it won't be attributed back to the marketing activity.

There are some cross-device estimations available from Google but they are not wholly reliable and do not reach 100% of user activity.

5. Rate

A hotel's selling rate, whether higher or low, can have a direct and significant correlation with CPA.

4.2 NET AFFINITY

How can a hotel monitor its CPA?

For clients, it's about providing them with reports and accurate information so they can see how each platform and campaign is performing in real time. It's important to note, however, that CPA is just one part of the puzzle as there are many other issues to consider besides.

For example, as previously referred to, it is important to understand the goal of each channel and, therefore, the impact that one channel can have on another. As a guide, we aim to drive direct bookings at a CPA that's as low as possible. However, the benchmark is to achieve a CPA of 15% or lower.

It is also important to note that some campaigns cannot be accessed using a CPA model and in such cases, other metrics that are more relevant to the campaign should be used.

For example in the case of wedding enquiries, it's important to remove the activity for these campaigns from any CPA calculations as they will serve to dilute the overall performance.

In summary then, in order to benchmark and be able to compete, we need absolute transparency on how much commission each channel costs; for example, what commission rate is payable on sales generated through booking.com?

Finally, it's also very important to factor in higher cancellation costs on other channels, such as third party sites, and to monitor the impact that this can have on overall business.

7 key elements that can help decrease CPA:

1 Revenue Management

Inventory and availability is absolutely critical to achieving CPA success.

2 Rate Parity

This can have a significant impact when competing for direct bookings, particularly on meta-search engines such as Trivago. Wholesale reduced rates can have a significant impact on performance
and CPA on this channel. However, competitive rates can have a very strong positive effect on the CPA for this channel.

3 Availability

Maximum and unrestricted availability are critical to ensuring we are not driving costly traffic to a booking engine with restricted availability as this will invariably result in fewer opportunities to convert and therefore, drive up the CPA.

4 Trademark

Trademark brand names and analyses third party contracts to ensure to reduce the level of competition on brand name terms. In other words, less competition results in lower costs and potential stronger CPAs.

5 Adequate Investment

Adequate investment is that which matches market demand by adopting a consistent strategy.

6 Loyalty

Offer loyalty and incentives to book direct: include these 'book direct' messages within the hotels overall marketing message to help drive more direct traffic and, in the process, increase funnel conversion rates.

7 Online Reputation

This correlates directly with performance, in particular in respect of leisure guests

4.3 AVVIO

As one of the leading hotel booking engines, Avvio is a platform which is designed to help hotel businesses generate more revenue.

CPA relates specifically to the key areas of sales and revenue, and as shown throughout this document, it is essential that hotel businesses understand its importance when it comes to revenue management and cost analysis.

However, because digital is now such a vast area and therefore goes beyond just CPA and into a range of other marketing and sales fields, we also asked Aro and Avvio – two leading hotel booking engine providers – to look at digital in a much broader context, in order to help us understand the full of meaning of CPA.

What is Avvio?

As one of the leading hotel booking engines, Avvio is a platform which is designed to help hotel businesses generate more revenue for themselves, rather than paying much higher commissions to OTAs.

Essentially, Avvio works in tandem with a hotel's own website to drive growth in the area of direct on-site bookings. At the same time, and as part of the same process, it seeks to reduce its dependence on OTA revenue channels.

CPA and Digital

The main principal of CPA is that it applies a maximum % cost to digital campaigns. This offers flexibility with regard to spend on digital campaigns. However, please note that this is from a digital spend perspective only.

For example, a hotel will decide to keep a Google AdWords campaign running so long as it doesn't cost more than 10% to generate business through this channel. However, this model will cap the maximum that can be spent on generating customers and as a result, the amount of money that this costs the hotel will vary greatly month on month: there will be a higher spend when demand is high but equally, there will be a lower spend when demand is low.

The crux of the problem is that many hotels have a CPA of between 18-25% as a result of high fixed commissions paid to OTAs. For this reason, Avvio's model is aimed at increasing the amount of sales generated through a hotel's own website, simply because doing so can dramatically reduce the hotel's CPA.

The flexibility that this model delivers for the hotel is its true strength: whereas a fixed campaign spend (ie where the budget for PPC is set in stone and cannot be amended month on month), will not be able to factor in demand fluctuations, understanding the concept of CPA allows for reactive adjustments to the budget, in-line with consumer and market demand.

4.3 AVVIO

6 key factors affecting CPA:
Avvio's intuitive reservation technology has been developed to enhance the booking path of its hotel customers. With this in mind, it is very much aware of the different factors which can affect CPA, including the following:

1. **Demand**
   Events taking place in a locality will invariably lead to a spike in demand for hotel rooms.

2. **Availability**
   Poor availability will increase the CPA

3. **Rate Parity**
   If your rates are not in line with those of your competitors then you cannot maintain a low CPA. The reason is that your customers will shop around, move away from your brand site, and migrate to OTAs for best value.

4. **Online user experience**
   Your website (across all platforms including desktop, mobile, and tablet), is critical to the customer experience. In order to be effective in securing bookings, it must be user-friendly, intuitive, and fast.

5. **Digital marketing activities**
   Creatively supporting your brand online with a range of digital marketing and advertising initiatives will invariably drive visitors back to your site to book.

6. **Popularity of the location of the hotel**
   Hotels located in a high density city will invariably have a higher CPA than those located in smaller rural towns where there is less competition and therefore less demand.

Avvio's intuitive reservation technology has been developed to enhance the booking path of its hotel customers.

As well as being aware of these 6 factors which affect CPA, Avvio also offers these TOP TIPS for how to decrease CPA:

TOP TIPS TO DECREASING CPA

- Have a well managed PPC account
- Highlight Best rate guarantee on your website
- Ensure rate parity: in other words, have cheapest rates on hotel's own website
- Easy to use, customer focused and mobile responsive website
- Always carry out A/B testing to definitively ensure the best option
- Have clear call to actions on landing pages and on the selling pages of your site

4.4 ARÓ

A big factor which determines CPA is how well keywords and audience are defined.

As with any other web metric, CPA should have a predetermined target and be monitored regularly. Doing so will ensure that advertising investments are optimised and maximised.

But, what exactly are the key factors affecting CPA?

Online advertisement platforms (Google AdWords etc) have their own algorithm which allows them to calculate how much they will charge for a conversion, based on keyword prices, competition, bounce rate, interaction with ads, etc. And although we can't control algorithms, we can optimise campaigns based on data that those channels offer us, such as demographics, geographic location, timely, or interaction reports.

A big factor in determining CPA is how well keywords and the audience are defined: once we have decided precisely whom the target audience is, we are much better able to deliver the right message, satisfy expectations on a landing page, and ultimately make it easier for the prospect to take the desired action

"In the end, a good CPA will depend on one score: the quality score".

Quality Score

This metric is familiar to users of Google Adwords and Facebook Ads (Relevance Score). It measures, on a scale of 1 to 10, how well prospects interact with campaigns, with interactions referring to how often the ad is clicked, how long the prospects stays on the website and how often they convert.

There are a few different on-site elements that can lower your quality score:

- **Bounce Rate:**
  Percentage of visitors who land on your landing page and leave it in a few seconds with no interactions.

- **Average Session Duration:**
  The total length of time a visitor stays on your website. Even if visitors don't bounce off the site immediately and do choose to navigate through your site, only to return to their chosen search engine after a few seconds, this may still be seen as a bounce by both parties.

- **No conversion:**
  When your visitors spend time on the website, but don't convert. There may be a problem with audience intent – for example, they may be using the time on the site to find out more about your business before converting. Alternatively, they may be using the website to find out about services that don't directly relate to the conversion, such as dining options or leisure facilities.

So, the key factor is to match audience, intent, and message. This is what the quality score is all about: being relevant.

How to monitor CPA

CPA monitoring is usually a default feature in every online marketing channel, but in most cases, pieces of code are necessary to track the conversions.

The easiest way to monitor CPA is to setup a goal in Google Analytics and import it into AdWords. The second option is to place an Adwords conversion tracking code on the confirmation page. The latter is the only option for Facebook advertising campaigns.

For more accurate data, setting up a customised e-commerce tracking code on your boking engine or checkout system is highly recommended.

How can you decrease your CPA?

Before understanding how to decrease CPA, it's important to first understand what the initial CPA might be. This depends largely on how your business is built and how much of the revenue, gained from online conversions, you are willing to spend.

In terms of our own clients, in respect of 4 star hotels with good search volume, and a good brand awareness, we would expect campaigns with a CPA of 3% to 4% of the Average Order Value (AOV). So, if our AOV is €325, our CPA will be somewhere between €9.75 and €13, which means an ROI of 3300% - or a €33 return for every euro invested.

However, we should optimise our campaigns towards a lower CPA and here are some of the ways in which we can do this:

- **Building brand awareness**
  When people know your brand they will search for it. Branded keywords have the cheapest bidding and get around 30% of the clicks on search results pages. This means that, along with the other 30% of clicks we usually get from organic traffic, we capture 60% of the searches for brands and avoid losing clicks to others bidding on your brand.

- **Removing keywords or ads that don't convert**
  Constantly optimising campaigns is the key to PPC success. After working for some time with several different keywords and ad, you will have enough data to remove those which spend your budget without resulting in sales.

- **Keeping ads and landing pages relevant**
  Google, Bing, Facebook etc want to organise and make data available to all. To do this they need to keep relevance as a top metric. This means that we must keep the entire purchase funnel relevant: keywords/audience, ads, landing pages, offers and upsells. By doing this, we leverage efforts to keep our prospects on the path to conversion.

Satisfying expectations

- **There are three kinds of search keywords:**

1. Informational – when the searcher looks for advice on a specific topic
2. Branded – when the searcher already knows your brand and type it into the search engine
3. Transactional – when searchers are prepared to buy something or type keywords with a high intent to purchase. Search engines know all of them and apply higher costs as the intent of purchase increases.

When people know your brand they will search for it.

4.4 ARÓ

Never create a lonely ad in a campaign. By spending only a few minutes more, you could create another ad and measure which is the more profitable ad.

- **Optimising landing pages to receive visitors from ads**
  When we keep the relationship between ads and landing pages relevant, conversions tend to increase. To achieve relevance, we must keep titles, headings, subheadings and content in accordance with what we advertised. By doing this, we optimise content for marketing channels.

- **Keeping an eye on search volume**
  CPA is the magic metric which predicts how our campaigns are going to succeed or how intensely they need to be optimised. However, a low CPA and high ROI from low search volume keywords or small audiences will not give us great revenue. Therefore, you need to be aware of the time spent on these campaigns and if working on others would bring more results from the same budget and time invested.

- **Decreasing number of keywords on ad groups**
  Relevance starts before the first click. Several keywords on the same ad group may hide what's working and what's not. This in turn can make it difficult to manage intent for ads, make it difficult to achieve optimal CPC and, therefore, a low CPA.

- **Re-marketing current visitors and customers**
  Keeping your brand alive is what makes people come back to your website and book directly. You should re-target audiences differently and according to the pages they have visited on your website. You should re-target audiences differently, according to the pages they visited on the website. If users visited the rooms page, for example, promote an offer or perk for that room. If they visited the booking engine, promote a limited time offer. Remember, the final number you want to see is not ROI, but CLV, which is the total revenue a customer will spend with you whilst a customer. The goal is to convert prospects and keep them a life-long client.

- **Enticing visitors to take small commitments**
  Following the example above, when you induce visitors to download a shopping guide, you create a small commitment in their minds, create trust in your brand and create the culture of using your website. If you exchange the download for the prospect's email address, you create another very cheap channel of communication with them.

- **Testing endlessly**
  Never create a lonely ad in a campaign. By spending only a few minutes more, you could create another ad and measure which is the more profitable ad. This is called Split Testing. Always test two versions of the same campaign and after determining the winner, formulate an assumption, delete the losing ad and create a new version to compare the results.

In summary, relevance is the key to getting better results from your PPC budget. It's certainly time consuming, but the outcome of this work will instantly lower every campaign cost and give you much greater results consistently in the long term.

4.5 OONAGH CREMINS THE INNOVATE ROOM

Implementing the guidance on CPA and other measurement tools contained in this report will be a step-change for the industry.

Thoughts on CPA in the context of this report

This report brings together many of the very relevant topics that are currently being discussed in hotel revenue departments, in boardrooms and in stakeholder offices.

The fact is that commission costs charged on hotel room bookings have long been a challenge for the hotel sector as a whole and Irish hotels are no exception in this regard.

So given that commissions paid out by hotels on their room bookings are becoming the fastest rising costs facing hotels, the preparation and compilation of this report - coupled with input from both Irish and international CPA experts - is incredibly timely and very much appreciated by the industry.

Local Context

It is very common practice for Irish hotels to review their commission costs as a global cost in their monthly P/L accounts; for this reason, the true cost per room sold has been masked somewhat until now.

Implementing the guidance on CPA and other measurement tools contained in this report will be a step-change for the industry. However, what it will mean that the Irish hotel industry will now be able to understand in a very clear and is tangible way, their true cost of distribution or their per channel cost per room.

4.5 OONAGH CREMINS
THE INNOVATE ROOM

It stands to reason that understanding this cost per channel will undoubtedly boost the ongoing efforts being made to improve direct online sales, as the cost savings and contribution to profitability become evident in a more tangible and monetary way. In addition, creating and defining your optimal channel mix will become an ongoing challenge against the backdrop of the dynamic market in which we operate.

It is mentioned throughout this report that the strength of third party intermediaries, in delivering business, lies in their ability to leverage their technology to deliver real data that enables better decisions to be made based on fact as opposed to hearsay.

Simply using and leveraging your proprietary systems for accurate data will support your decisions and this in turn will greatly assist your work in compiling the area of Cost Per Acquisition. It is for this reason that the report strongly recommends that attention should also be paid to optimizing your technology in order to provide you with the holistic guest data that is essential in today's marketplace.

In terms of being a practical business support tool for anyone involved in the area of hotel revenues or finance, this report is an excellent guidance document which is certain to help you to build greater profitability for your hotel business.

Of course as with any concept or business methodology that's new and therefore very challenging in terms of the way we run our businesses, there's no doubt that as an industry, we may find it challenging to implement the actions that have been recommended in this report.

However, given the incredible insights which the report delivers in the context of revenue generation and increased profitability, I would urge all hotel owners and their financial teams to embrace the recommendations and findings presented, and to implement suggested actions as soon as possible in order to realise the monetary benefits for your hotel.

Simply using and leveraging your proprietary systems for accurate data will support your decisions and this in turn will greatly assist your work in the area of Cost Per Acquisition.

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Cost per acquisition is a relatively new metric in hospitality, but it is one that is rapidly growing in importance.

Cost Per Acquisition Summarised

Cost per acquisition is a relatively new metric in hospitality, but it is one that is rapidly growing in importance, when it comes to attempting to ascertain the true net ADR (average daily rate).

Revenue Managers' success has traditionally been measured on top-line revenue (net of value-added tax), but this metric actually provides a far deeper and more transparent analysis on the optimum sales channel mix, overall performance and per-room booking profitability.

Just as the traditional focus on gross margins and wage costs, the cost per acquisition KPI (key performance indicator) arguably has an even greater direct effect on overall profitability, given the flow-through from accommodation sales to the bottom line (net profit). This is something that the uniform system of accounts for hotels will need to incorporate in the future as part of the overall bedroom revenue & statistics reporting.

This White Paper, written and presented by Kalibri Labs on behalf of Fáilte Ireland, is a seminal piece of detailed research on what is still an emerging yet critically important topic, and it delivers a number of valuable lessons and insights:

→ It forms the first real step in "getting behind the numbers" on the property declared RevPAR, since it strips out all costs, both direct and indirect, associated with each individual bedroom sale. As a result, it provides a more holistic overview of the entire sales and marketing effort, moving away from the traditional model of individuals working within silos.

→ It introduces a range of completely new terms, such as Net Revenue, Revenue Capture, Net RevPAR and COPE, all of which need to form part of the accommodation provider's lexicon into the future.

→ Asset managers, institutional funds, investors and hotel owners will, and already are demanding this granular level of information, as part of profit maximization & repositioning strategies. While the white paper more than adequately outlines these concepts, it is important that the entire team gets behind the rationale, calculation and interpretation of these new metrics.

→ As pointed out by other contributors to this report, we have long known that there are high direct, and many hidden indirect costs in the pursuit of accommodation sales. This report therefore shines a spotlight on each and every cost, line by line, and in this way helps to ensure that not only is the correct sales channel being utilised, but the maximum return on investment is being delivered.

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- Revenue management is both an art and a science, and while there is no one-size-fits-all solution, analysis of these new KPIs should ensure that valuable sales and marketing resources are directed to the most cost efficient channels & campaigns.

- It should be noted too that even if your property is performing at or above your competitor set RGI (revenue generated index), this can very often lure managers into a false sense of security, without the benefit of having interrogated each input cost of sale, both direct and indirect. For branded or affiliated hotels, this can be even more complex, illustrating the importance of factoring in every single cost of sale, including marketing fees and franchise fees.

- When a property such as a hotel is being prepared either for sale, for routine valuation, or simply to perform due diligence, the room statistics and EBITDA will always receive the most analysis. So, while a property may appear, on the face of it, to be performing very well on occupancy and rate, an over-reliance on OTAs (and consequent high commission costs) may actually deter potential buyers, or at the very least encourage them to seek a price reduction, based on their analysts' interpretation of the 'true' net RevPAR, after all costs are deducted.

For this reason, Revenue Managers and Financial Controllers must start to implement and report on these aforementioned emerging KPIs as part of the monthly management pack, so as to ensure the Executive Team has a detailed understanding of the property CPA.

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Working with online travel agents is no longer negotiable, and every property will realistically need to engage at some level with this valuable booking source.

The Five Step Revenue Analysis Model

The Five Step Revenue Analysis Model is a good starting point when setting out on this journey.

Using the formulae outlined in the report, Finance and Revenue Managers should be in a position to start building a profile of data and trends, over a 12-month period (including monthly moving averages). Then, by understanding the efficiency of each sales channel, digital activity (including PPC, SEO & Google Adwords) and direct marketing initiatives, well-informed data-driven decisions can be implemented and tracked to ensure success.

In addition, accommodation PMS (Property Management Systems) need to be leveraged in conjunction with emerging CRM software, combining data analytics and guest information, to ensure the optimum sales & channel mix.

Furthermore, it should be noted that working with online travel agents is no longer negotiable, and every property will realistically need to engage at some level with this valuable booking source. Though often referred to nowadays as “Frenemies”, OTAs should form part of a hotel’s overall revenue management strategy. Naturally, Revenue Managers will want to push as much business as possible through “Brand Web” (the hotel’s own website), but other sources such as FIT, ad hoc groups & GDS business must also be optimised.

Of course, the real conundrum facing all hotel Revenue and Finance Managers is to know what level & volume of direct business to take direct at lower commission, versus higher production levels and commissions (OTAs, Groups). However, only by knowing your true CPA can you ultimately make these informed decisions and thereby maximize your hotel room profitability.

Finally, in commissioning both this report and the accompanying Evolve Conference, Fáilte Ireland is to be highly commended for raising awareness around this important topic; and with a series of seminars and workshops planned to roll out these concepts to industry in the near future, there should be great supports available to assist those interested in practical implementation.

Knowing & understanding your CPA is vital to effective Revenue Management and ultimately profit maximisation, so my advice to all Hotel Revenue and Finance Managers would be to read up on the findings of this White Paper and in the process, watch your room profitability soar.

5.0 FINAL REPORT SUMMARY

It is very clear from the various different expert contributors and sources quoted throughout this document, that hotel bookings are increasingly being made through indirect / third party online channels, rather than through own brand sites directly.

The result of having such vast resources is huge traffic flowing through these websites, and this invariably means that have hotels often have little option but to come on board as a partner and accept the commission structure, whatever it might be.

The result of such resources is huge traffic flowing through to these websites, which means that very often hotels have little option but to sign up as a partner, and in the process accept the commission structure, whatever it might be.

Hotels are increasingly under pressure to utilise these distribution channels there can be little doubt that OTAs (and more recently global meta-mediaries) are increasingly moving the booking model beyond the stay brand (own brand), by creating huge one-stop-shop platforms that give the end user more choice complete with a simple, easy to use booking platform.

Clearly, the goal od OTAs is very simple: because they can attract such high traffic volumes (and therefore hotel bookings), they can remove the need for the online visitor to go to brand.com at all. As a result, they are free to determine the commission rate charged to their hotel partners, in return for room sales.

The issue of sustainability, and the economic viability of the OTA model from the point of view of individual hotel brands, is one which was also addressed in this report. Is it really viable, for example, for hotels to be paying in the region of 15-20% CPA to third party sites in the form of commission?

Various solutions to this scenario are suggested throughout this report, with one possible solution suggested being to simply move away from the current static commissions model and instead opt for a dynamic or flexible model which affords adaptability in line with market trends.

In addition, one of the core messages of this report is that Hotel Managers increasingly need to think very carefully and strategically about the subject of CPA when it comes to setting marketing budgets, and investing in any other marketing related activities that are aimed at customer acquisition. Investing budget without analysing all spend in minute detail is not good business practice and may result in unnecessary increases in acquisition costs, which in turn impacts negatively on the business bottom-line .

At the end of the day, understanding the intricacies of CPA and the various different revenue models that are at play in the area of hotel bookings is vital when it comes to developing the right strategy for your business. Thus, now is the time to arm yourself with the knowledge that you and your team need to help you implement a booking strategy that maximises your room profits.

Ultimately, the customer will decide where and with whom they book their hotel room. Your job, as a hotel operator, is to understand their journey because once you do you will be much better equipped to develop a booking strategy based upon big data driven decisions and specifically built with your businesses profitability in mind.

Good luck with your journey and we hope that this white paper which we have produced on your behalf, helps you see room bookings, and commission costs, in a much different and clearer light.

Paul Keeley
Director of Business Development
Fáilte Ireland

Notes

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