

Revenue Optimisation through OTA Marketing at Marriott International, Inc.

May 2019

Abstract

This research plan is based on the understanding that partnering with online travel agents (OTAs) is a commercially beneficial strategy which the leading international hotel chain, Marriott International Inc., has long been ignoring. However, in an increasingly competitive hospitality sector, it pays to respond to consumer trends than to hold on to less-profitable strategies. The literature reviewed here suggested that more and more travellers, mostly the millennial population, are preferring to book their travel accommodations through the OTAs. Therefore, a thorough investigation into customer psyche is necessary to understand if OTA partnerships can indeed optimise Marriott's revenues. To that end, this research plans to conduct a questionnaire survey of approximately 500-550 participants. Their responses will be analysed to arrive at a more accurate understanding of the market. Finally, this plan recommends that Marriott agrees to the research, so that the findings can constructively help it to revise its sales strategies and extend liaison with the OTAs.

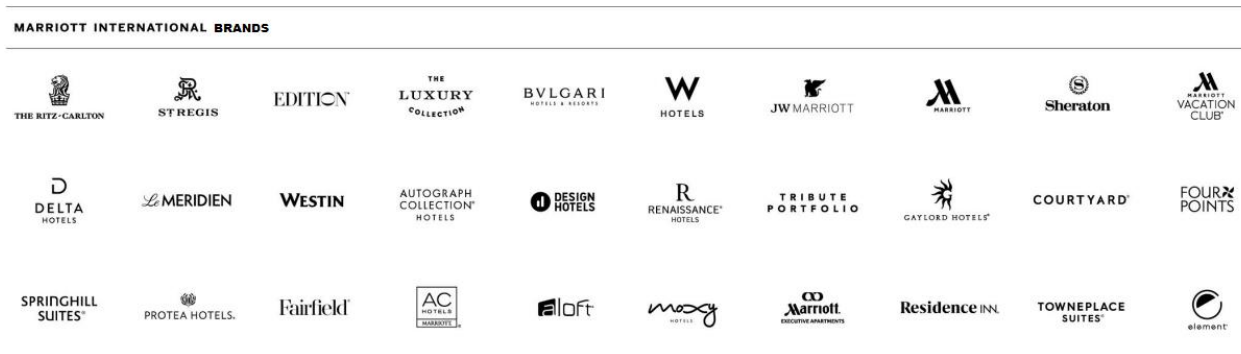
Table of Contents

Abstract	2
I. Introduction	4
II. Research Topic	6
III. Strategy: A Vital Management Practice	7
IV. Literature Review	8
V. Methodology	13
i. Participants	13
ii. Questionnaire	14
VI. Likely Data	Error! Bookmark not defined.
VII. Likely Findings	Error! Bookmark not defined.
VIII. Estimated Cost	Error! Bookmark not defined.
IX. Conclusion	Error! Bookmark not defined.
X. References	Error! Bookmark not defined.
XI. Appendix	Error! Bookmark not defined.

I. Introduction

Headquartered in Maryland, USA, Marriott International, Inc. (hereafter, Marriott or the Company) is a leading company in the hospitality industry with about 30 brands under its name and over 7000 properties across 130 countries (Marriott International n.d.(a)). The company was founded by J. Willard Marriott and Alice Marriott in 1927 (Marriott International n.d. (a)). Thereafter, they had constantly innovated, embraced changed, pursued excellence and had seen their company steadily grow to become one of the most recognised hotel chains in the world today.

Marriott is a global operator, licensor and franchisor of hotels, residential and timeshare properties with various brand names and various service and price portfolios (Marriott International 2018). The Company boasts of having some of the best and choicest range of properties under its portfolio that any hospitality company can possible have.



Source: Annual Report 2018

At the end of 2018, the Company had 2020 company-operated properties comprising 566759 rooms and 4735 franchised and licensed properties comprising 729413 rooms (Marriott International 2018). Apart from these, it also had some unconsolidated joint venture properties.

Marriott is guided by its principle of putting people first, whether it is their guests, subsidiaries, associates, shareholders, hotel owner, or any other who exist in the community of its operations

(Marriott International 2017). It is with the commitment towards this guiding core value that the Company has grown from a nine-seat A&W root beer stand in Washington DC to the world's largest hotel company today (Marriott International n.d. (b)).

In 2016, Marriott acquired Starwood Hotels & Resorts and achieved huge cost savings, while also benefitting from the combined loyalty programs and leveraging Starwood's portfolio. Such strategic acquisitions indicate the Company's interest in higher market reach and more revenue generation. According to some industry experts (Mahmoud 2019), the future of revenue management in the hospitality sector lies with the Online Travel Agents (OTAs). OTA marketing is a growing trend in the sector as about two-thirds of all online travel bookings are controlled by the OTAs like Expedia, Booking.com and Priceline (Lawrence 2017). Although Marriott holds the largest share in direct hotel bookings among all other hotels, there is a significant revenue earning potential if Marriott can tap the growing trend of OTAs.



Source: Lawrence 2017

Revenue optimisation through OTA marketing can help the Company reach a bigger share of the market, most of which are drawn to the OTAs. Therefore, there is a need to evaluate how an OTA marketing strategy can help Marriott generate more revenues. A further approach of this research will be to determine which customer segment opts for OTAs more and if Marriott

needs to focus on that segment. The outcome of this research can help all the hotels under the parent brand Marriott.

II. Research Topic

The overall research plan is to explore how much revenue earning potential the Company has vis-à-vis OTA marketing, although it had mostly, so far, favoured the traditional hotel booking norms, that is, through direct bookings through the hotel without any intermediaries. However, as Nohria, Joyce and Roberson (2003) had mentioned in their study *What Really Works*, “the essence of what you do will change little over time—you still need to be able to fine-tune your focus in response to new technologies, social trends, or government regulations”. This means that companies need to realign focus or re-strategize based on the market trends to derive maximum benefits. Many articles, industry reports and research papers point to the growing preference among travellers for checking lodging options via the OTAs. The reasons behind this will be discussed in detail through a literature review conducted later in this plan. However, based on a preliminary understanding of the market, it seems OTA marketing can positively impact the profitability of Marriott International, Inc.

Based on this, the main research question behind the plan is:

- How can OTA marketing optimise the revenue potential at Marriott?

The main research question generates some more associated queries, which will be discussed in this research. These are:

- ❖ Which customer segment in the travel sector are opting more for hotel booking through OTAs?
- ❖ What motivates this segment to choose OTAs over direct hotel bookings?
- ❖ Why have Marriott kept OTAs at bay as far as its sales strategies are concerned?

- ❖ Do the pitfalls of OTA marketing outweigh its benefits?

It is the objective of this research plan to explore this research question and the sub-questions.

The conclusion at the end will tie back to these aims and objectives stated above.

III. Strategy: A Vital Management Practice

Nohria, Joyce and Roberson's (2003) ten-year long study on 160 companies and their various management practices revealed that there is certain pattern for success, which the authors called the 4+2 formula. This formula represents a winning combination of 4 primary management practices and 2 secondary management practices. Companies that abide by the 4+2 formula demonstrate remarkable business performance in 90% cases.

The 4 primary management practices identified by Nohria, Joyce and Roberson (2003) are strategy, execution, culture and structure. They also identified 4 secondary management practices as talent, innovation, leadership and mergers and partnerships. A company's success, according to this study, depends on how well the company performs on the 4 primary and any 2 secondary practices.

This research plan, discussing Marriott's potential in OTA marketing, focuses on 'strategy', one of the foremost management practices. Being sound on the strategy aspect means that a company understands how to pursue its growth. Therefore, strategy is important as a practice to all organisations, as well as it is to Marriott.

Today, Marriott is already an established name in the hospitality industry. So it is evident that the Company has practised the 4+2 formula well. However, as observed by Talabi (2015), one of the biggest and fastest growing sectors in the world is the hospitality sector. Hence, complacency can be fatal for even a hospitality giant like Marriott. The competition in this industry has become so steep in recent years that it not only threatens the small fishes or new

entrants, but also the big fishes who have been running successfully for several years (Talabi 2015). Therefore, unless Marriott re-strategizes or readjusts its existing strategies based on new market situations, it may not be able to sustain its top-spot in the long run.

Striking liaisons with OTAs has never been on Marriott's mind. In fact, in 2016, the Company invested over \$1 million and launched a campaign called 'It Pays to Book Direct', which aimed at convincing customers to book directly with Marriott, instead of reaching them through OTAs (Ankur 2018). However, OTAs are here to rule the travel and tourism industry and research holds that the global online travel market will witness a growth of 11.1% between 2016 and 2022 (Bisht 2016). Given such a high growth forecast of OTAs in the next 5-6 years, it appears logical that Marriott would gain from refreshing its old strategies and accommodating OTAs for its sales. OTA marketing has the potential for higher revenue generation in a competitive market, even for big players like Marriott, if the channels are chosen wisely. This research believes that Marriott can strategically benefit from building OTA partnerships and leveraging the potential of these immensely powerful and steadily growing online distribution channels like Expedia, Booking.com or Priceline. Therefore, it would be indeed worthy to explore this area with research and find out Marriott's chances of revenue optimisation through OTAs.

IV. Literature Review

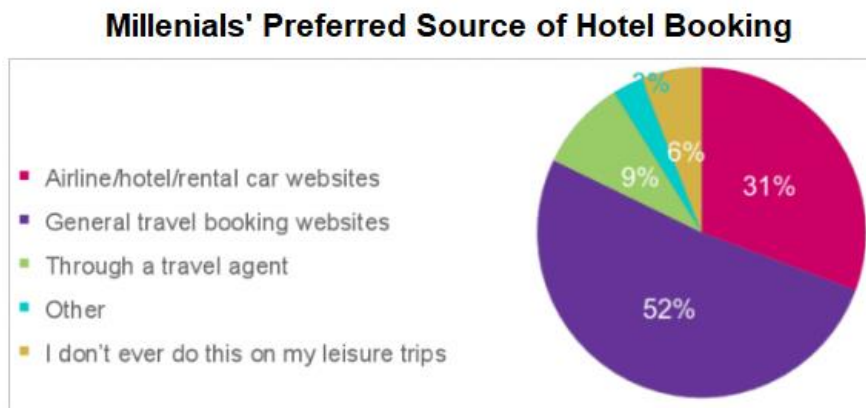
There was a time when hotels were booked either through telephonic exchanges or by direct visits (Mahmoud 2019). Then with the e-commerce boom, the mode of hotel booking began to change and travellers became increasingly interested in doing everything online. And that included booking hotels too. This literature review attempts to assess the worth in partnering with OTAs or if hotels should only endorse direct bookings. It will explore opinions mostly available from online sources (e-journals, e-books, online reports, webinars, news articles, etc.) and some printed materials too.

Opinions seem to be divided on the OTA-hotel relationship. While some agree that the hotels can significantly benefit from the ongoing OTA trend, there are still others who are quite sceptical about the OTAs. Howe (2017), for example, has noted the downside of hotel bookings through the OTAs as commission rates per booking have increased to as high as 30%. It has thus slowed the hotels' revenue generation and hit their bottom lines. In the initial years of OTAs, the commission was 5% on average (Howe 2017). That was a win-win situation for both OTAs and the hotels. Nowadays, indirect hotel bookings have become so popular that the OTAs charge high commissions, which often makes hotels think hard before engaging into any OTA relationship.

The worst sufferers in the commission increase are the lesser known brands or smaller independent hotels who are charged as high as 20%-30% commission, as compared to very minimal commission for the well-known international brands (Sunny 2016, Ankur 2018). While the smaller independent hotels need the OTA platform to increase their visibility and reach more customers, the steep commission cripples their profitability and slows down growth. A similar view has been expressed by industry expert Mohankumar (2019). The OTA trend is more difficult on smaller independent hotels as the commissions are related to business scales. The cost and benefits of OTA marketing do not rationalise for these hotels, whereas the international brands are in a position to push for direct bookings, bypassing the OTAs (Mohankumar 2019). However, Feinstein (2018) has stated that direct bookings have already taken a hit in the current scenario as the OTA market share continues to shoot up.

OTAs are expected to witness massive growth by 2025 (HTF Market Intelligence 2019) as they make travel planning and hotel bookings easy for travellers (Bisht 2016). Lawrence (2017) estimates Expedia and the Priceline group alone to occupy 94% of all online bookings by the year 2020. The reasons behind this steady growth have been discussed by many. The Generation Y or the millennials comprise 33% of the travel market and this group finds huge

value in booking through the OTAs (Feinstein 2018). Peltier (2016) discovered that 52% of the millennials preferred to conduct hotel bookings via OTAs.



Source: Peltier (2016)

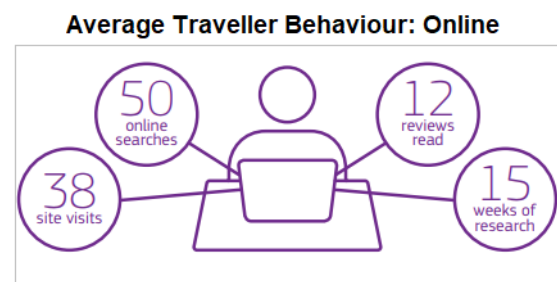
Mahmoud (2016) nicely explains why customers are being attracted more to the OTAs. According to this expert, most OTA websites present clear property ratings and prices, mention distinct discount information, show how many users are eyeing the property at any given time and when was the property last booked. These help customers make a quick buying decision. Millennials are also less brand loyal and more price sensitive, observed analyst Quinby (2017). They enjoy the ability to choose one property from many options provided by the OTAs than to go back to the same property again and again or be bound by some hotel's Loyalty Programs (Quinby 2017). 39% millennials find no value in joining any hotel's Loyalty Programs (Feinstein 2018). Marriott's Loyalty Programs, therefore, may not be effective for far too long in the future if the percentage of millennials goes up in the travel and tourism sector.

Another reason why travellers are more drawn to the OTAs is because they provide others' views and feedbacks. Reading reviews is one of the leading activities while making a hotel choice and 96% travellers find it extremely important (TripAdvisor Insights n.d.). 83% travellers, according to TripAdvisor Insights (n.d.), are almost always guided by user reviews in their hotel purchase. Over 50% TripAdvisor users ignore all properties that do not have any reviews. Given these percentages, it becomes clear why hotels are overshadowed by the OTAs

in the travel market share. OTAs help travellers make an informed choice not just by reading reviews, but also by comparing a property with other properties, comparing prices, checking out photos, etc. Such a comparison of price and properties naturally become more attractive an engagement than the offers from individual hotels.

Sunny (2016) raised another important point with regard to the OTAs that they invest billions of dollars on their marketing initiatives, which is sometimes even higher than what the leading hotels would be able to afford. The advertising campaigns that OTA giants like Expedia and Priceline generate, are designed to provide colossal market exposure to the hotels associated with them. Lawrence (2017) provided similar observation, saying that while hotels spend only 6% of their revenue on marketing, OTAs usually spend 30%-40%. Why would they invest so generously on advertising? Gibergues (2016, p 7) provided an answer:

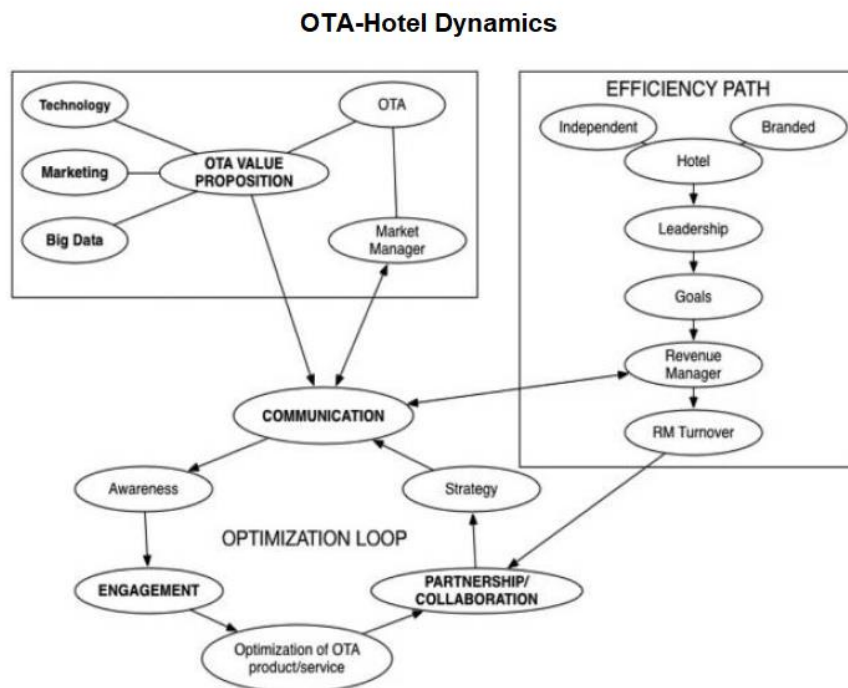
‘The average traveller searches nearly 50 times online, makes 38 site visits, reads a dozen reviews, researches for 15 weeks, and does not have a particular destination in mind when he or she starts looking.’



Source: Gibergues (2016)

Advertising done by the OTAs, therefore, has a significant positive impact on the hotels' occupancy levels. Hotels can definitely enjoy the benefits of such 'billboard effect' if they liaise with the right OTAs. Sharma (2018) summarises some of the benefits that hotels can derive from OTA connections: higher website traffic, increased market exposure, higher room occupancy and indirect persuasion through user reviews on OTA websites. Although this author mentioned that OTA connections can slow down revenue growth, he still considered OTAs to have an advantage that is impossible for hotels to tap in its entirety.

Although the branded hotels hold sceptical views about using OTA connections (Lee, Guillet & Law 2013), it is true that OTAs increase room sales, generate revenue and provide the hotels a competitive advantage (Caliskan, Kutlu & Kimiloglu 2013). Each year, OTAs generate billions of dollars in room revenues (Raab et. al. 2018). Research holds more good news. For instance, as Ankur (2018), Sunny (2016) and Lawrence (2017) mentioned, 50% of online users visit the hotel’s official website through these OTA channels. This is an opportunity of customer engagement and retention for the hoteliers, who can then try to influence the user to make a direct booking with the hotel. So, some researchers like Kimes (2016) felt that hotels can substantially benefit if they focus on OTA partnerships, keeping their disbelief aside. Koestler (2014) rightly held that hotels can utilise OTAs to improve their marketing initiatives and sales revenues.



Source: Raab et al (2018)

The billboard effect often discussed in various literature is indeed a high point of consideration for hotels when it comes to OTA partnerships. Raab et al’s (2018) findings also indicate that many travellers make direct hotel bookings, after they have entered the hotel website via the

OTA marketplace. Hoteliers can receive some extra credibility only by enlisting themselves in the leading OTAs (Sunny 2016).

The plethora of research and discussions on the OTA-hotel relationship mostly weigh in favour of the OTAs as increasingly popular trends in the hospitality sector. In the long run, the benefits of OTA marketing/partnership seem to outshine the worries over steep commissions. As Mahmoud (2019) correctly summed it up, hoteliers need to leverage the OTA dominance if they are to optimise their revenues in an intensely competitive and highly fragmented market.

V. Methodology

This research plans to adopt a quantitative approach, involving a questionnaire survey of approximately 500-550 participants in the age group of 25 to 60. The questions will be pre-designed and similar for every participant to understand the variety of responses to similar questions across all age groups. A questionnaire survey is chosen to get maximum insights about consumer preferences regarding travel and hotel booking.

i. Participants

The participants will be randomly chosen from the customer database of all of Marriott's partner hotels, associates and subsidiaries. Participants are to be chosen after filtering by last 2 year's data and age group 25 to 60 years. The final list of participants will also be adjusted to include approximately a 1:1 male-female ratio.

The participants will be informed about the survey through email and will be required to digitally sign a consent before receiving a questionnaire link over another email. They will also be assured of confidentiality regarding the information they provide during the survey. Customers who do not consent to taking part in the survey will not be sent the questionnaire.

ii. Questionnaire

The questionnaire will comprise a total of 30 questions, focused mainly on understanding traveller behaviours and social travel trends (hotel booking behaviours). There will be a mix of both short-answer type and long-answer type questions. It will take an estimated total duration of 40 minutes to complete the questionnaire. Participants will be provided a relaxed time of 3 to 4 days to complete the survey, failing which a reminder mail will be sent to them. The final research will be conducted on only completed questionnaires received. Incomplete or delayed submissions will not be counted for data analysis.

The questionnaire is attached at the end of this document in the Appendix.

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