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ALWAYS AHEAD

Hotel Industry Trends Report 2024

allora.ai by shrGROUP

A passion for hotels

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How did we get here?

The reciprocal relationship between hotels and online travel agents (OTAs) is well understood but it would be a mistake to think that there exists an unchanging status quo.

Hoteliers need to know that there have been some big shifts in spending patterns in the past year as OTAs seek to claim market share and, ultimately, redefine the role they play in the hospitality landscape.

The most important tactic for those trying to get heads into beds has always been to avoid paying for the same guest twice, while the business model of the OTAs is to make sure every hotel pays for every guest, every time. This tension defines the relationship that sees both sides jostle to own the guest record, the guest journey and repeat bookings.

These businesses depend on each other, and there's no getting away from that. The hotels need a wide audience, exposure and lead generation, while OTAs need inventory. It's a bond that will never be broken but what is up for grabs is the share of total revenue each is able to claim.

The price for OTA-generated leads may be high but it's important to remember that the commissions handed to OTAs don't just get paid out in shareholder dividends.

A significant portion of their income is reinvested in marketing which, on some level, benefits the hotels themselves. In the past, the degree to which a hotel is dependent on OTA channels has been relatively static — governed predominantly by supply and demand — but hotels and OTAs are now finding new ways to increase their share of leads, 'own the guest' and grow their own revenues. Central to this arms race are established strategies like revenue & customer relationship management (CRM) as well as novel solutions such as personalisation, which creates custom guest journeys, content, upsells and inventory depending on who the customer is and what they're interested in.

The battle remains one of lead generation and guest acquisition, and it's the financial firepower available to OTAs that is really starting to alter the dynamics of the hospitality market in a way that hasn't been seen before. While hotels do benefit from exposure in the biggest marketplaces on earth, what should concern hoteliers is the point at which they lose sight of the horizon and it becomes disproportionately expensive to do business outside of OTA ecosystems.

If you want to get ahead and stay there, the four watchwords of acquisition, retention, referral and remarketing must be maximized. In our 2024 Hotel Industry Trends Report, we'll show you just how fast the landscape is changing, what trends represent the biggest threats to revenue share and what hoteliers can do about it.

Our data is based on analysis of over 50 million room nights across more than 2,000 international hotels that are currently using one or multiple Allora products and services, all designed to help hotels and resorts optimize their revenue generation and boost their bottom line.

Rod Jimenez
CEO of SHR Group

Hoteliers' direct share of room nights sold **dropped**

3%

in 2023

And in the same year the direct share of booking & total revenue **fell 1% pt** to

45%

(this doesn't include group, wholesale and other contract bookings made through PMS platforms)

How did we get here?

Online travel agents (OTAs) are **shaking things up**

The OTAs lost most of their revenues during the COVID-19 pandemic but are now investing heavily to claim market share from direct hotel bookings.

The OTAs lost most of their revenues during the COVID-19 pandemic but are now investing heavily to claim market share from direct hotel bookings. For the last two years, our customers have seen the proportion of reservations booked directly remain stable at 39%[1] but the past 12 months have seen a dramatic change in OTAs' strategies, including increased marketing spend and intensive investment in their own loyalty programs.

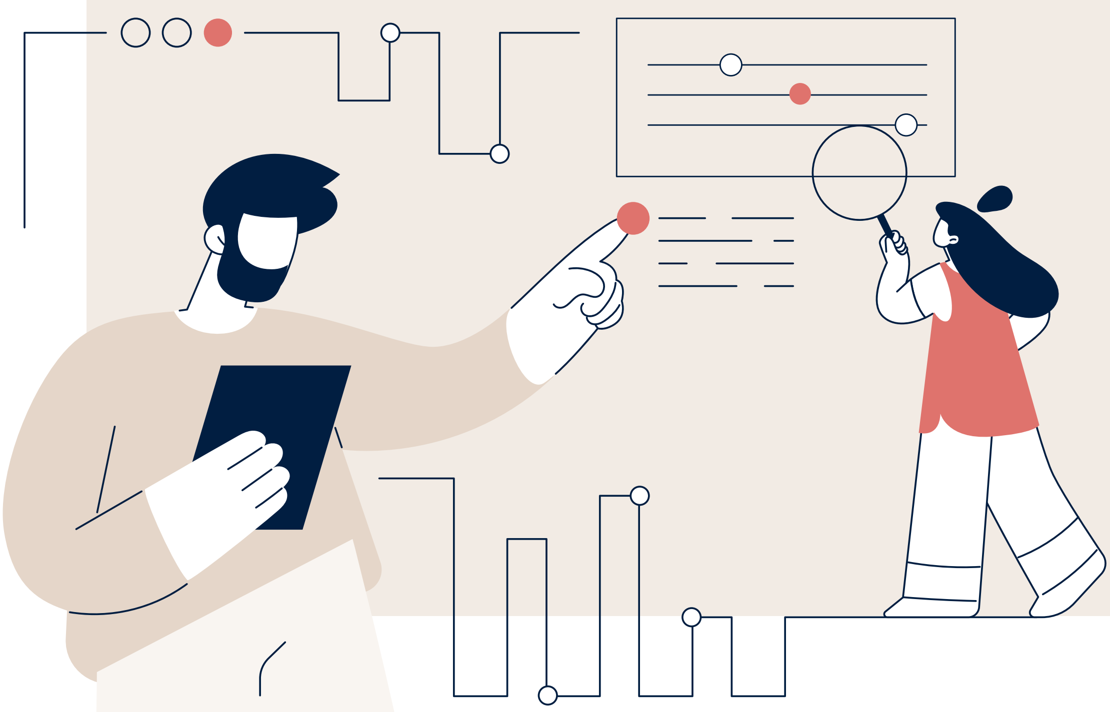
Remember, it's the variation year-on-year that's important here. The 'share of' figures we cite will be higher than industry averages because they don't include group, wholesale or other contract bookings made through PMS platforms

As a result, the direct share of reservations dropped by one percentage point to 38%[1] in 2023, while indirect share of reservations increased from 61% to 62%1. That might not sound like a lot but it equates to approximately 7.8million reservations globally[2]. OTAs are also attracting longer staying guests, which means their progress is even more visible when we look at the share of room nights. Direct share of room nights has fallen from 47% to 44% year-on-year, while indirect has increased from 53% to 56% — a change equivalent to approximately 65.6million nights worldwide[2]. Loss of direct share of reservations and room nights has inevitably also had a knock-on effect on revenues, which have both dropped 1% pt for direct channels.

These are important shifts, and how significant they are will become clear in 2024 and 2025. However, if this is the start of a multi-year trend and a concerted effort by the OTAs to increase market share, there's no bigger clue than that emerging from the world of advertising.

[1] Based on SHR Group analysis of over 50 million room nights across more than 2,000 international hotels that are currently using one or multiple Allora products and services, all designed to help hotels and resorts optimize their revenue generation and boost their bottom line.
[2] Extrapolation based on STR estimate of 187,000 hotels worldwide

OTA marketing investment has **doubled** the cost of paid ads for hoteliers



A return to 'normal' travel gives OTAs the **upperhand**

Cost per click has ballooned

↑ 100%
All channels

↑ 62.5%
Google Ads

↑ 128.6%
Metasearch

Another factor supporting growth for the OTAs is the recovery in overseas travel, which is traditionally where the OTAs are stronger. According to Booking.com, room nights taken by international travelers exceeded 50% in Q3 2023, up from around 45% a year earlier — in line with pre-pandemic norms.

The OTAs charge commission of between 18% and 23% but much of this is reinvested to try to ensure that their share of reservations only goes in one direction. Over time, this reinvestment becomes increasingly efficient, as hoteliers end up effectively paying the OTAs to generate their next guest, not the one who has just booked.

This is why the central theme of OTA business strategies will always be digital marketing and, in 2023, they appear to have upped the ante. The OTAs' commitment to dominating search engine results has driven huge increases in the cost of pay-per-click, and they're doing it across multiple categories. The cost of Google Ads has risen 62.5% from $0.16 to $0.26, while the cost of metasearch has grown 128.6% from $0.21 to $0.48.

In the travel arena, a metasearch engine pulls in data from lots of other websites to produce its own results for consumer queries. It organizes all the information they need — whether it's flights, accommodation, car rentals or vacation packages — on a single results page. Kayak and Trivago are both examples of metasearch engines.

The devices guests are using to book will also be playing a role in the growing power of paid search.

The proportion of bookings made on mobiles has been steadily growing, and reached 47.8% in 2023. This is likely influencing buying trends, because consumers are more likely to favor speed on mobile devices, making sponsored results much more attractive. Desktop's share was 50.1%, which means the days of the computer's dominance are numbered.

What **devices** are people using to book?

	Bookings 2023 %	Bookings 2022 %
Desktop	50.1	50.9
Mobile	47.8	46.1
Tablet	2.1	3.0

Fall in organic research revenues

↓ 15.3%
in 2023

"

This is why it's so important for hotels to defend direct channels and their own off-OTA lead generation.

Those hotels who do nothing will eventually find they've become so dependent on OTAs for the vast majority of their bookings that the investment required to wean themselves off will be completely beyond all but the largest hotel groups. The more leads that come through OTAs, the more expensive it all becomes. Prevention is better than cure and that requires effective strategies around loyalty schemes, personalization, and guest retention.

Frank Reeves
Chief Evangelist, SHR Group

"

By attempting to win clicks and claim leads from direct bookings, the OTAs have invested so heavily in paid ads that it has effectively cut the return on investment for hoteliers' own marketing spend in half. Across all channels, cost-per-click has **doubled** from **$0.17** to **$0.34**.

This marketing reinvestment also raises the level of competition for brand searches (when a guest who knows what hotel they want to stay at punches the name into a search engine). These searches show high intent because they are typically returning guests, guests for whom a particular hotel is the only one they want to stay at due to an event like a conference or a wedding or those who are acting on a recommendation.

Hotels don't own the top search result for their own brand thanks to sponsored PPC ads.

Which means these search terms are a high priority for the OTAs, as they allow them to divert customers searching for specific hotels to their own booking engines. Metasearch is also high intent traffic because its users are more often just testing where they can find the best price. Here too, the industry has seen enormous cost increases.

All of the above has rather predictable consequences for organic search, where associated revenues have fallen

15.3% YoY ↓

almost exactly matching the increase won by paid search — 15.5%. Hoteliers are being forced to invest heavily in PPC to compete with OTAs and stop them harvesting all of the high-intent traffic, which was historically the domain of organic search.

As OTAs continue to capture a larger share of the market, hotels must adapt their marketing strategies to reduce their investment and the overall cost of guest acquisition. The share of paid search and organic search are currently neck-and-neck, representing 31.5% and 32.8% of revenues respectively but we expect this to continue to shift in favor of paid search in the coming years.

Owning the **guests**, not just their reservations

Case study

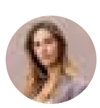
Guldsmeden Hotels

At the moment, it seems like we and other hotel groups are grappling with the OTAs to win loyal customers and repeat guests.

That's why, as the OTAs ramp up their loyalty programs, a huge focus for us has been to offer our guests rewards that the OTAs can't compete with. Our 'Friends and Family' loyalty program, which we first implemented around eight years ago, has five different levels, with each level offering different perks and allowing guests to earn points.

Perks include same-day cancellation, free early check-in and late check-out, free access to the spa and a guaranteed room 48 hours before arrival.

Our aim is to give guests something really worth signing up to our program for – so far it's been very successful, welcoming up to 500 members a week. But we're always looking to develop that and expand our offering, making sure that we're in the best position to own the profiles of repeat guests and compete with the OTAs.



Gabriella Othilia Kingelin Larsen
B2B Sales Manager at Guldsmeden Hotels

As the OTAs become more aggressive, they're investing more in loyalty programs in an attempt to own each guest, and not just each reservation.

Of all cancellations made,

63%

were received **more** than 35 nights in advance vs 60% in 2022

These programs create loyalty among consumers by rewarding them for returning to the OTA each time they want to book. This is exactly the same strategy many hotels are using to create repeat business. At stake is ultimate ownership of the guest record.

However, this loyalty contest is not just a race between hotels and OTAs but a competition between the OTAs themselves that further intensifies the battle of marketing spend. The current intensification of investment in acquiring users likely reflects the urgency the OTAs perceive in signing up as many travelers to their programs as they can — it's a land grab. The earlier they can bring guests into their loyalty programs, the cheaper that's likely to be over the long run, and the more value they're likely to be able to extract from these guests in the future.

Hoteliers have even more to gain from well-deployed loyalty schemes as they are a powerful way to shore up direct bookings.

allora.ai

by shrGROUP

can predict which booking will cancel with an accuracy rate of 85%

Cancellation rates back to **normal**

With the cost of acquiring guests on the increase, minimizing cancellations can mitigate the impact. Fortunately, one big trend seen in 2023 was a return to pre-covid levels of cancellations. Last year, 23.1% of bookings were canceled, in line with 2019.

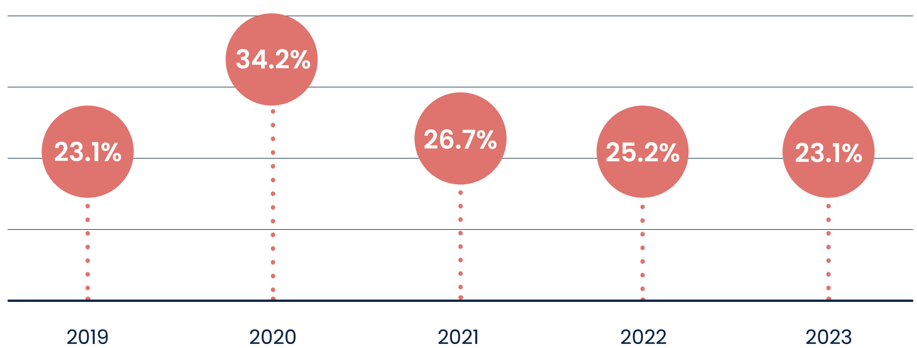
Cancellation rates had risen as high as 34.2% during the pandemic, on what were very thin booking volumes, so this was a welcome development. The share of direct booking revenue lost due to cancellations has also declined, falling from 19.2% in 2022 to 15.4% in 2023.

OTAs have a vested interest in bringing the number of cancellations down too as they only get paid when the guest stays, not if they cancel. They can be expected to invest heavily in this area as a result and will be looking to take advantage of new search marketing tools such as Google's 'Performance Max for travel goals' which targets searches with greater intent. This gives OTAs an easy way of reducing cancellations without innovating — they can just spend more, effectively outsourcing the problem.

Who's **booking?**

	2023 %	2022 %	**Change % pts**
Business	20	17	**3**
Couple	65	64	**1**
Family	8	10	**-2**
Multiroom	7	9	**-2**

Cancellation rates



Families are still **most likely** to cancel on you[3]

	2023 %	2022 %
Business	16.3	20.6
Couple	24.1	29.6
Family	**28.8**	**33.8**
Multiroom	24.8	27.5

[3] Weighted to average cancellation rates for CRS

Case study
Hastings Hotels

We used to spend a lot of time speculating on what might work, but Allora's booking and recommender engine shows us the reality of potential guests' booking preferences and behaviours, which allows us to create tailored strategies.

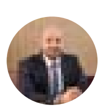
Through A/B testing, we've explored lots of different scenarios, like what happens if we display rates on a property or not and, from there, made decisions about what we present to guests during the booking process.

Having insights into guest profiles — for example, solo travellers, couples and families, feeder markets, conversion rates and booking value — has allowed us to abandon the one-size-fits-all booking approach.

Instead of throwing meaningless offers at guests who haven't yet booked, we're able to highlight actual points of interest in the hotel – whether that's a spa package for a couple or bed and breakfast option for a corporate traveller. Instead of pushing guests to book, we have the insights to show them products and services that are actually relevant – meaning it's no longer just about accommodation booking, we have an entire upselling strategy throughout the booking journey too.

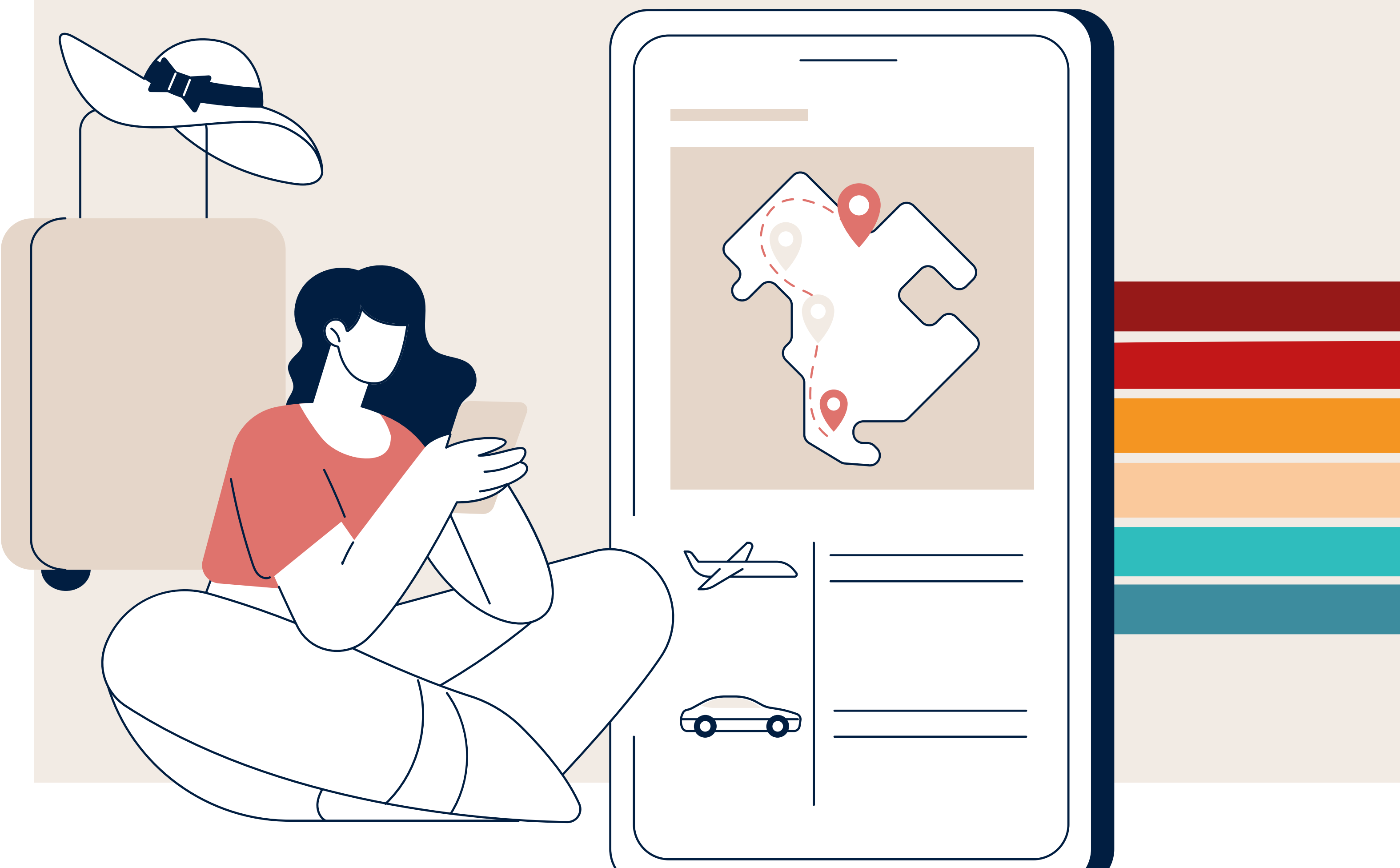
These insights have also allowed us to ramp up our marketing strategy. With visibility into guest lead times, we can work out which guest segment would benefit from discounts or offers. For example, if couples' lead times are longer than solo travellers, we know that we might need to start pushing our offers for the next season earlier, and offer discounts to those searching for stays for two adults.

Being able to personalize the guest booking journey means that we treat no two guests the same and every experience is meaningful and relevant. As a result, the past couple of years have broken records for us in terms of revenue generated, bookings and room nights.



Matt McRoberts
Head of Marketing at Hastings Hotels

What's in store for 2024?



A greater focus on cancellations

Frank Reeves,
Chief Evangelist,
SHR Group

With the paid ad space subject to intense competition for clicks, reducing cancellation rates is one area where hotels can make a lot of headway.

Cancellations still represent nearly a quarter of reservations, and strategies that can reduce them can be used to simultaneously create a guest record, unlocking the opportunity to own guests' future stays.

The two ways that hoteliers are going to accomplish this are loyalty and personalization. They will stop thinking about acquiring bookings and start thinking only in terms of acquiring guests who they can serve well for decades rather than days.

Only then will they be able to fully exploit the brand value and affection they've been able to generate by delivering fantastic stays to those with every reason to return in the future.

Revenue management

Dynamic pricing has been around for a while but AI is earning the trust of managers and freeing them up to concentrate on adding value in other ways. Fewer than 1% of our allora RMS pricing decisions are being overridden by humans. Not all hoteliers have yet adopted this kind of solution but those who do see 32.9% revenue growth within one year.

[1] Based on analysis of SHR Group channels, which exclude group, wholesale and other contract bookings made through PMS platforms. SHR's sample represents over 50 million room nights across more than 2,000 international hotels that are currently using one or multiple Allora products and services.
[2] Extrapolation based on STR estimate of 187,000 hotels worldwide.
[3] Weighted to average cancellation rates for CRS

Personalization

If 2023 was the year that, thanks to ChatGPT, AI stopped being a buzzword and became something consumers could actually touch and use for the first time, then 2024 is set to be the year that AI leaps off the page and forever changes the way consumers shop.

Travel and hospitality are two areas where this is already happening, with Google perfecting its own generative AI search experience, which is expected to be released this year. This is an incredibly exciting development, because it means that a concierge-style experience will be brought to search for the first time.

Travelers won't need to scroll through dozens of listings anymore. It will feel far more intuitive, like someone who really knows you is presenting options that immediately speak to you.

The danger for hotels, however, is that this is another tool that could make it easier for OTAs to own the guest record and the guest journey.

Faced with rampant personalization of search across ever more distribution channels and social channels, everyone — hoteliers included — will have to adjust their digital marketing strategies to fit new campaign types such as Demand Gen from Google, and make sure they're still competing with the OTAs by spending in the right ways. If not, return on advertising spend (ROAS) will suffer, further surrendering booking and revenue share.

However, personalization presents opportunities for hoteliers too, as they can use it to transform the guest experience on their own direct booking sites. When potential guests visit a hotel's website, they leave a trail of valuable data that hoteliers often ignore. We refer to this as the 'lost 20 minutes' of data that hotels should be using to increase the relevance of what visitors see.

By creating custom guest journeys that turn generic content into experiences tailored to individuals, conversion rates dramatically improve. How do we know this? We can see that those hotels leaning into AI-powered personalization and recommender engines with Allora.ai are often winning, rather than losing, market share.

Personalization will be the most powerful initiative deployed by hotels seeking greater revenue share in 2024. It will level the playing field — just in time.

If you'd like to know more, **book a demo** or **speak to a member of the team**, and sign up to our **newsletter**

About shrGROUP

Founded in 2004, and headquartered in Houston, Texas, with offices in Europe and Asia-Pacific, **SHR Group** is a leading global specialist technology and service provider to the hotel sector. We help hoteliers maximize revenue by optimizing all aspects of the booking and retention eco-system through a full suite of tools, including the groundbreaking **allora.ai** platform. Over 2,000 hotels globally use SHR Group's product suite to optimize their channel mix and personalize guest experiences.

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