

Taking a Strategic Approach to **Rate Parity** in 2018

A special issue co-authored by
RateGain & Daniel Craig

The image features a woman in a black blazer and white shirt, smiling and pointing her right index finger towards a large smartphone. The smartphone screen displays two hotel booking options. The top option is for a 'Deluxe Room' at 'A Star Hotel' (indicated by three stars), with a room rate of \$125 on the brand and a 'Book Now' button. The bottom option is for a room on OTAs (Online Travel Agencies) with a room rate of \$105 and a 'Book Now' button. A hand icon is shown clicking the bottom 'Book Now' button. In the background, a laptop screen shows a hotel room interior with the text 'Deluxe Room' and a search icon.

Booking Channel	Room Rate	Action
Room Rate on Brand	\$125	Book Now
Room Rate on OTAs	\$105	Book Now

Achieve Increased
Direct Bookings, Higher Brand
Loyalty & Consumer Confidence

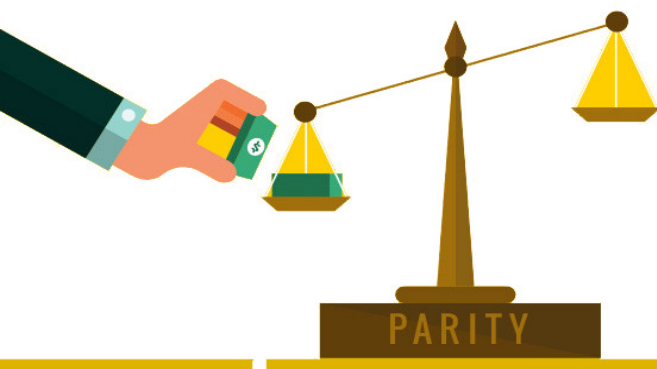


Daniel E. Craig is a former hotel general manager and the founder of Reknown, a consultancy that provides strategy, training and best practices in marketing, reputation and revenue management for hotels worldwide.

For more information visit www.reknown.com.

Taking a Strategic Approach to Rate Parity in 2018: Achieving More Direct Bookings and Lower Costs

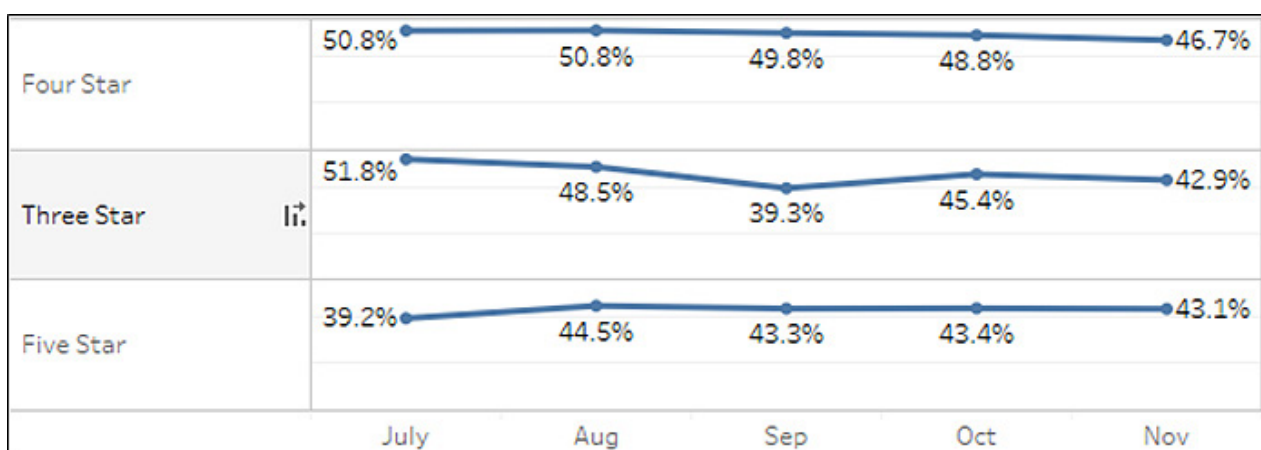
Have hotels given up on rate parity? A quick search of hotels on any metasearch site often brings up a mishmash of room rates across distribution channels—some at parity, others close but not quite, and some showing significant variances.



Meanwhile, virtually every major hotel brand and online travel agency offers a best-rate guarantee. How is this even possible? Only one channel can offer the best rate. Unless rates are in parity, in which case a more accurate term would be the same rate.

More often than not, however, rates on one booking source are lower than other booking sources, meaning the others aren't upholding their promise. It's no wonder travellers are confused about where to find the best deals.

Which begs the question, is rate disparity the new normal? What's at stake for hotels and brands? And how can hotels manage rate parity efficiently to drive more direct bookings?



Percentage of hotels found to be out of parity, July through November 2017. © RateGain

How Pervasive is Rate Disparity?

Recently, RateGain's inhouse rate parity team gathered extensive data related to hotel room rates around the world and found some surprising results.

RateGain shopped over 2,500 hotels in 44 countries and 83 cities over the five-month period from July to November 2017. Data was scraped from five major OTAs—Expedia, Booking.com, Wotif, lastminute.com and LateRooms.com—as well as hotel brand sites.



The findings? The study found rampant cases of rate disparity in every region of the world. In some cities, almost every hotel surveyed was out of parity. Often the rates listed on hotel websites were lower than OTA rates, but more often than not OTA rates were lower. In some cities, more than 50 percent of hotels are being undercut by OTAs.

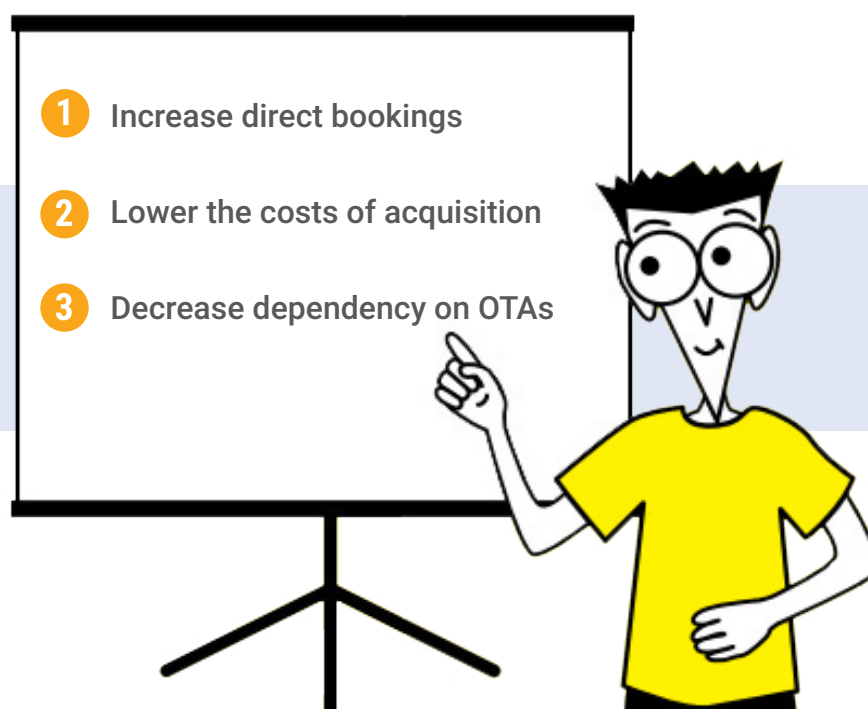
Of the over 2,500 hotels shopped, 900 are five-star hotels, 1,080 are four-star hotels and 900 are three-star hotels. Here is a breakdown by star category showing the frequency of hotels' direct rates being undercut by OTAs over the five-month period, according to the study:

Three-star Properties:	OTA rates were lower 45.6% of the time
Four-star Properties:	OTA rates were lower 49.4% of the time
Five-star Properties:	OTA rates were lower 42.7% of the time

Achieving Revenue Objectives Through Rate Parity

As any revenue manager will attest, OTAs and other third-party resellers provide an indispensable service to hotels. With their vast marketing resources and huge global audience, OTAs help hotels reach new markets, increase brand awareness and fill empty rooms. But many hotels are more dependent on OTA business than they would like given the relatively high costs of acquisition compared to direct channels.

In their efforts to establish a more balanced distribution mix, hotel executives and revenue managers set the same three objectives every year, and 2018 is no exception:



These objectives are interdependent, of course, and one of the most effective ways to advance all three is to maintain rate parity. This means advertising the same room rates on all public distribution channels. Of course, offering lower rates on direct channels would be even more effective, but most hotels are bound by rate parity clauses in OTA contracts that forbid them from doing so.

Some hotels choose to defy such agreements and undercut OTA rates, but they do so at their own risk. OTAs may take punitive action, reducing the visibility of offending hotels in search results, which can result in irrecoverable losses in revenue. Regardless of how they may feel about rate parity clauses, it's my opinion that hoteliers should honour the terms of the contracts they sign—as should OTAs.

But when hotels allow OTAs to undercut their direct rates, they lose business. By making it so easy to compare pricing among hotels in a destination, OTAs and metasearch sites have conditioned travellers to shop for hotels by rate. When all else is equal, most travellers will book on the channel that offers the lowest price. Even a nominal difference can persuade travellers to choose an OTA over the hotel's direct channels.

And yet the impact on the hotel's bottom line is by no means nominal. The difference between paying a commission of 12 to 25 percent and paying no commission at all can add up to hundreds of dollars in lost revenue on each booking. The greater the disparity and the more frequent disparities occur, the more revenue the hotel loses.

The end result? The polar opposite of the objectives outlined above. Hotels experience fewer direct bookings, higher costs of acquisition and greater dependency on OTAs. And it doesn't end there.



Managing Rate Parity: What to Watch For?

Rate parity issues can arise from OTAs, hotels and hotel brands. They may be caused deliberately, unwittingly, or as a result of human or technical error.

Whatever the origin of the problem or the reason for it, the effect is the same: **lost revenue**.



It's therefore vital to keep a close eye out for rate disparities and to act quickly to get to the root of the problem.

Here are some of the common reasons rates may fall out of parity:

- **Human or technical error.** Rates are improperly loaded; rate codes have not been updated; room types are mixed up; data is inaccurately scraped from other sites; or there are caching issues or delays.
- **OTA promotions.** The hotel has agreed to participate in a special OTA promotion.
- **Rate or room category.** If a certain room type or rate category is sold out on one channel, it may display a different rate.

- **OTA undercuts commissions.** An OTA reduces its commission in order to advertise a lower rate. The difference may be nominal, designed to look like a mere “rounding error,” but it still may sway travellers in the OTA’s favour.
- **Difference in fees.** The OTA withholds fees or other charges in price quotes to make its rates look more favourable.
- **Different tax formats.** Some OTAs include taxes in rate quotes; others do not. Practices can vary by country and region. It may also be an issue of how taxes on fees or surcharges are calculated.
- **Currency conversion.** For international bookings, there may be a difference in currency exchange rates.
- **Wholesale rates.** A wholesaler or tour company is advertising wholesale rates publicly or at a lower markup than agreed upon.
- **Negotiated rates.** Rates negotiated privately for special groups such as consortia, corporate agreements or travel associations are advertised publicly.
- **Technical latency.** There is a delay in rates or inventory being uploaded or transferred, resulting in rates that are out of sync.
- **Manipulation.** The OTA manipulates how pricing is displayed so that hotel staff see rates in parity while customers see a lower price.
- **Rate updates.** The rate has changed between the time the traveller searches for availability and the time of booking.
- **Package rates.** Special rates extended for packages are unbundled and advertised as room-only.



What to Do When You Discover Rate Disparities

It's important to be consistent in how you respond when you encounter disparities in how your hotel's rates are advertised. If your team members and distribution partners know that your hotel company regularly monitors rates and takes corrective action, they will be more careful with their work and less likely to engage in questionable practices.



Here are some basic steps to follow:

Determine how significant the disparity is. Is it minor, major or critical? If you don't have time to chase after every instance of disparity, focus on big disparities and frequent occurrences. Bear in mind, however, that even a nominal variation in rate can mean the difference between a direct booking and a third-party booking.

Determine the nature of the disparity. Is a third party undercutting your hotel's rates, or is your hotel undercutting a third party's rates? If action is required, take a screen shot and follow up right away. The longer you delay, the more direct business you risk losing.

Go to the source. If you're a corporate or regional revenue manager, contact the property in question to find out the reason behind the disparity. If it's an error or deliberate strategy on their part, remind them of the brand's commitment to rate parity and the risks involved. If the issue persists, ask an executive to intervene.

Contact the OTA. If the disparity originates with a third-party site, contact the representative to request an explanation and ask that the matter be corrected at once. Be firm. Don't accept excuses or the runaround. Your distribution partners must take responsibility for the rates they advertise. If they expect you to honour rate parity terms, they should extend the same courtesy.

If the behaviour continues, be persistent. If necessary, escalate the issue to senior management. You may need to decide how important the relationship is and whether you are willing to cancel or suspend the agreement. A temporary cut-off in supply or room rate increase may be enough to change the behaviour.

Make a reservation. It's not always easy to determine the source behind a rate disparity. Relationships among OTAs, wholesalers, tour companies and other resellers can be murky and convoluted. OTAs must take responsibility for the companies with which they affiliate. If you can't track down the source, make a reservation. Your confirmation should reveal details of where the booking originated. If you can't cancel the reservation, ask the booking source to process a refund.

Share information. If a distributor is breaking the rules, it's probably engaging in similar practices with other hotels. Make inquiries with colleagues and share information. The violator may not feel the pinch from one hotel cutting them off, but they will certainly feel it from several hotels or an entire brand.



With 12 years of experience in the hotel industry, Diego Fernandez brings a wealth of expertise to his role as Corporate Director, Revenue and Distribution, at Palladium Hotel Group

Diego Fernandez Perez De Ponga
Corporate Director of Revenue and Distribution
at Palladium Hotel Group

Managing Rate Parity: A Brand Perspective

At Palladium Hotel Group, rate parity is a top priority. "Rate parity is an essential strategy which allows hotels to project an image of uniformity to the market and, therefore, a message of quality to future guests," says Diego Fernández Pérez De Ponga, Corporate Director of Revenue Management. "Lack of parity reveals a lack of confidence and leads to conversion problems, especially on direct channels.

“The greater the differentiation between a hotel's direct rates and rates offered through OTAs and third-party distribution channels, the greater the attention that must be paid, considering that hotels lose profitability for each room night sold by any channel not our own.”

De Ponga believes that rate parity is best managed in three key ways:

- **Time:** Parity is achieved through constancy over time.
- **Conviction:** Hoteliers must accept that some relationships may be negatively affected when a hotel obliges its partners to play by the rules.
- **Technology:** The proper use of technology is essential for analyzing disparities.



Rate Parity Strategies

Rather than react every time you encounter rate disparities, which can be time-consuming and distracting, take proactive measures to prevent issues.

Here are 12 rate parity management strategies to consider:

1. Clarify Policy

What is your brand's policy on rate parity? Parity policy forms a critical part of revenue management strategy. To ensure compliance, consistency and accountability across your brand, communicate policy and guidelines clearly to all staff and get their buy-in. If your policy is to maintain parity at all times, properties shouldn't be permitted to cut side deals with OTAs. One outlier can affect perceptions of the entire brand.

2. Think Long-term

When a hotel is forecasting to fall short of budget, it can be tempting to turn on the OTA tap by dropping rates or participating in promotions. But while this may provide a short-term bump in revenue, the negative effects on traveller perceptions and brand reputation can be long-lasting. Resist short-term solutions and focus on long-term strategy.

3. Collaborate

On-property staff may see rate parity checks as just another way for corporate office to criticize and interfere with their work. It's important to emphasize that everyone shares the same objectives: optimizing revenue and controlling costs. Property, corporate and regional staff must work together in the spirit of collaboration and cooperation. Use incidents of rate disparity as a constructive learning opportunity, share tips and insights with one another, and recognize achievements.



Rate Parity Strategy

4. Invest in a Rate Parity Tool

A rate parity tool can bring tremendous efficiency to rate tracking, especially for revenue managers who oversee dozens of properties. A good tool offers two-way interactive reporting and analytics and facilitates communication among stakeholders. It will monitor rate disparities in real-time, send alerts for quick action, and help hotels keep on top of frequent violators. Hotels can track performance by city, region and cluster or across the entire portfolio to identify underperformers and recognize top performers.

5. Advertise the Benefits

When rates are the same on all channels, travellers look for other reasons to choose one channel over others. Ensure that the benefits of booking directly are displayed prominently on your brand website. Promote them in advertising, email marketing, reservations calls and on-property materials. Benefits may include guaranteed lowest rates, a price-match policy, no hidden fees, flexible cancellation terms, free Wi-Fi and priority room allocation.

6. Reward Your Loyal Guests

Loyalty programs are perhaps the most effective way to bypass rate restrictions and market directly to travellers and loyal customers. Work hard to build loyalty memberships, offer incentives to members to book directly, and reward them for their loyalty.

7. Invest in your Website

OTAs invest huge sums to make their websites user-friendly and to maximize conversion. Few hotels have such resources, but it doesn't take much to ensure that your website is easy to navigate and offers a simple, clear path to booking a room. Consider adding a pop-up window to remind visitors who abandon a reservation query of your best-rate guarantee and a rate-check widget to assure them they will find the same rates on OTAs.

8. Work with OTAs as Partners, not Rivals

OTAs are your competitors when it comes to direct bookings, but they are also your partners in filling rooms, helping to access markets you may otherwise never reach. Rather than harbour distrust and resentment toward OTAs, treat them as your partners, maintaining cooperative relationships with regional managers. If, despite your efforts, you're unable to build a relationship of mutual trust and respect, it may be time to find a new partner.

9. Monitor Rate Parity

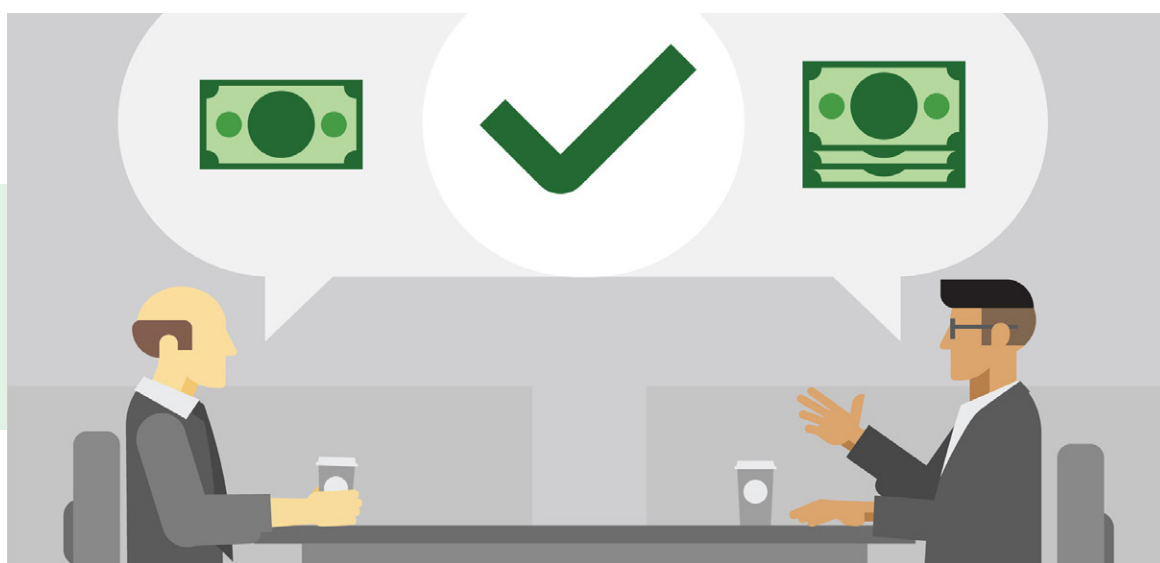
Sometimes OTAs will advise you if your property is out of parity or if another OTA is undercutting their rates, but don't wait for them to alert you. Make rate shopping part of your daily routine. If you don't have a rate parity tool, use metasearch sites to spot-check rates on a desktop and a mobile device. Put yourself in the shoes of travellers to see what they see when they shop your hotel. Some distributors may offer different rates to different regions, so involve colleagues in other cities in the rate-checking process. And don't limit monitoring to OTA partners—you never know where your hotel may show up.

10. Enter Data Correctly

When uploading rates, rate codes, tax information and other details to extranets, always double check your work. This type of work can be onerous and finicky, and seemingly minor errors can have a major impact. A channel manager will help reduce errors and make the process more efficient.

11. Negotiate Favourable Terms

Review your distribution agreements carefully to ensure that you fully understand the terms. If your company has agreed to maintain rate parity, respect your commitment. When it comes to renewal time, it's your opportunity to negotiate more favourable terms. This may include asking the OTA to lower commissions, adjust rate parity terms or eliminate last-room-availability requirements. The bigger your brand, the more clout you should have.



At a minimum, ensure that the OTA agrees not to undercut your hotel's direct rates unless exceptions are made for specific campaigns. You should also be able to offer lower rates through private channels such as loyalty club programs, email campaigns, social media and packages without violating parity terms.

Another area to watch out for is the OTA practice of bidding on hotel brand names in search marketing, sometimes called brandjacking. This type of advertising can mislead travellers into thinking they are booking directly with the hotel. Try to negotiate an agreement from the OTA not to engage in such behaviour.

When it comes to wholesale contracts, wholesalers and the tour operators and travel agencies they work with should not be permitted to advertise wholesale rates to the public or to undercut the hotel's direct rates.

12. Support Your Community

Play an active role in your hotel community, sharing tips, industry intelligence and best practices. Support efforts by hotel associations and industry colleagues to lobby OTAs and government for equitable policies and practices.

Interview: A Corporate Perspective on Managing Rate Parity



With 20 years of experience in the hotel industry, C.S. Ramachandran brings a wealth of expertise to his role as Director, Revenue Account Management, India, Middle East, Africa, at Preferred Hotels & Resorts. In this brief Q&A, he shares his thoughts about rate parity.

C.S. Ramachandran

Director, Revenue Account Management, India, Middle East, Africa, at Preferred Hotels & Resorts

Q1 Why do you think that maintaining rate parity continues to be important for hotels and hotel brands today?

C.S. Ramachandran: Rate integrity and rate parity are two important practices for hotels to follow to succeed in today's connected world. When a hotel practices rate integrity, its customers know that they are paying a fair price for the hotel product and services. When a hotel practices rate parity, customers pay the same price irrespective of the booking channel.

Rate parity in general is a legal agreement between hotels and OTAs where the hotel agrees to offer the same rates across all distribution channels for the same room types.

Hotels have been fighting hard over the years to increase their share of direct bookings. However, the emergence of metasearch sites and the investment of key players like Google and TripAdvisor in metasearch technology is making it easier for the consumer to compare rates across channels and book the best price.

Consumers are loyal to the brand but not always to the channel. A lower rate on OTAs or other third-party websites will devalue the hotel website in the eyes of the consumer, leading to lost revenue and increasing distribution costs, thus impacting the overall bottom line.

Recent developments in legislation throughout the world, especially in the European Union, have made rate parity an important topic in the hospitality industry. This has led some OTAs to soften the rate parity clause in contracts with hotels.

Q2. What steps should a property follow if it finds an OTA offering lower rates than its direct channels?

C.S. Ramachandran: Given the role price parity plays in the conversion of bookings, it is important for hotels to keep a watch out on pricing across OTA sites as well as metasearch channels by investing in the right rate shopping tool.

If an OTA is found to be offering a lower rate in comparison to direct channels despite the right rates loaded on the extranet, the hotel needs to take the case up with the market manager and advise them on the parity breach issue.

It is also important for hotels to ensure that OTA contracts specify that the OTA must offer rooms at rates no lower than the “best available rate” (BAR). The hotel should protect its interests by ensuring that OTAs refrain from selling at lower rates.

Q3. As a brand revenue leader, what are your three top tips for properties and corporate/regional offices to work together to manage rate parity?

C.S. Ramachandran

1. Invest in the right technology. In today’s distribution it is virtually impossible for hotels to achieve rate parity by manually managing all channels. There needs to be an investment in technology to simplify online distribution with real-time connectivity.

2. Build guest engagement and loyalty. Social media and the brand website are great channels for hotels to promote offers directly to travellers. Harness the power of these channels to create enticing offers to book direct to closed user groups. Take advantage of your loyalty program and offer special perks to members that don’t break parity agreements and have a low impact on costs such as room upgrades and late check-outs.



3. Invest in training. Training is a critical part of the process. Not just revenue managers but the whole team needs to be aware of the role they play in maximizing revenue opportunities. Increase the number of eyes auditing the hotel’s online presence.



The Advantages of a Rate Parity Tool



By Yogeesh Chandra Executive Vice President - Hospitality at RateGain

With the recent change in laws from Fair Trade practices organization across several countries, introduction of member rates, evolution of new acquisition and conversion technologies, RateParity is a fundamental to driving direct bookings. It's not an optional and sporadic audit but a consistent 'must have' for every hotel that is serious about improving their distribution margins.

One thing we can be sure of is in the absence of rate parity neither hotels nor OTAs will be able to make best-rate guarantees a credible part of their promise to travellers. Additionally, metasearch sites will flourish at the expense of hotels and smaller OTAs.

In fact little effort is required to track breaches in rate parity; the challenge lies in managing parity and putting a stop on breaches. This process can be especially challenging for hotel chains. And yet market dynamics demand that hoteliers move beyond simply identifying breaches to implementing processes to report breaches and take measures to put an end to disparities and prevent them from occurring in the future.

So what does this mean? To prevent revenue losses caused by rate disparities, hotels are wise to invest in an advanced rate parity tool. A comprehensive tool will empower hotels to not only identify causes but will also assist them resolving issues from end to end. Essentially, a tool-assisted process will provide real-time tracking, alert hotels to issues and facilitate follow-up with the respective teams as well as providing crucial data on overall corporate parity and the comparative performance of hotels with the chain.

To find out about RateGain's Parity+ tool, visit <https://rategain.com/hotel-software/rate-parity/>.



Conclusion

The key message here? Hotels shouldn't give up on rate parity. It's more important than ever. But it requires dedication, a team effort, clear policy and procedures, consistency across the brand and powerful technology.

With a well-executed rate parity strategy, your brand will be better positioned to achieve those elusive objectives in 2018: more direct bookings, lower costs of acquisition and less dependency on OTAs.

About RateGain

RateGain Travel Technologies is a dedicated provider of SaaS-based solutions, which have been exclusively designed for the global travel and hospitality sector. Products rendered span through online rate intelligence, hotel price optimization, competitor rate shopping, seamless electronic distribution and online brand reputation management.

The esteemed clientele of this global travel technology firm comprised of renowned hotels, online travel agents, airlines, car rentals, cruise liners, tour operators, and wholesalers. Since its establishment back in the year 2004 by founder and CEO, Bhanu Chopra, the organization has acquired over 12,000 clients worldwide.

Discover how your Hotel Group is performing by asking for a personalized demo

Get my free demo

Contact us at: marketing@rategain.com

Share:



www.rategain.com | marketing@rategain.com

US: 866.318.4358 | UK: 0808.234.4540 | AUS: 1800.502.529

Copyright © 2017 RateGain LLC