



## **Room Key – Savior, Satan or Stalking Horse?**

By Robert Cole, Founder, RockCheetah

Much has been made of the debut of Room Key, the hotel meta-search website founded by Choice Hotels International, Hilton Worldwide, Hyatt Hotels Corporation, InterContinental Hotels Group, Marriott International and Wyndham Hotel Group. Impassioned sentiment has ranged from glowing praise as a game changer or shot across the bows of the Online Travel Agencies to accusations of being a fool’s errand or even attempting to form a cartel.

## **The Third Coming**

For history buffs, this is the third time hoteliers have banded together in reaction to industry dynamics to create an organization that introduces an alternative with a more supplier-friendly business model.

### The Hotel Industry Switch Company (THISCO – later to become Pegasus)

Founded: 1988 | Switch | Hotel Distribution 1.0

Founding Hoteliers: Best Western International, Choice Hotels International, Forte Hotels, HFS International, Hilton Hotels, Hilton International, Hyatt Hotels, Inter-Continental Hotels, ITT Sheraton, La Quinta Inns, Marriott International, Promus Hotels, Utell International & Westin Hotels & Resorts

Purpose: Combat GDS control of hotel distribution (Sabre, Apollo, PARS, DATAS II, etc.)

### Hotel Distribution System (later to acquire TravelWeb name)

Founded: 2002 | Online Travel Agency | Hotel Distribution 2.0

Founding Hoteliers: Hilton Hotels Corporation, Hyatt Corporation, Marriott International, Six Continents Hotels (now InterContinental,) Starwood Hotels and Pegasus Solutions (Utell International)

Purpose: Combat OTA control of hotel distribution (Expedia, Travelocity, etc.)

### RoomKey

Founded: 2011 | Meta-search Website | Hotel Distribution 3.0

Founding Hoteliers: Choice Hotels International, Hilton Worldwide, Hyatt Hotels Corporation, InterContinental Hotels Group, Marriott International and Wyndham Hotel Group (Best Western added as non-investment partner)

Purpose: Combat search engine control of hotel distribution (Google Hotel Finder, Kayak, etc.)

As one can clearly see, this is the third time around for Hilton, Marriott, Hyatt and InterContinental; the four horsemen of hotel distribution co-opetition. John Davis, founding CEO of THISCO for version 1.0 and CEO of Pegasus (the supplier of TravelWeb's technology platform) for version 2.0 returns for version 3.0 as CEO of Room Key. This degree of continuity should ensure that the internal politics that sometimes plague such ventures should not be a detrimental factor for Room Key.

Similarly, the track record for inclusivity established by THISCO and TravelWeb should help alleviate concerns from competitive hotel companies that might normally worry the Room Key founders may be harboring a hidden agenda to harvest booking share from non-invested participants.

### **More Than Just a Pretty Face**

Room Key potentially addresses three reasons why consumers like using OTAs & meta-search sites:

- 1) **Cross-Brand Shopping.** Travelers that are not loyal to a single hotel chain enjoy the convenience of searching a single site to avoiding the myriad of booking processes and inconsistent content presented by the various hotel brands. Room Key plans to offer a one-stop hotel shopping experience for leisure and unmanaged business travelers.
- 2) **Clean Interface.** Doubling down on the first issue, Room Key appears determined to provide users with a clean, straightforward hotel search and deep-linking experience to the member websites. The large input fields, maps, estimated total price and graphical price and start rating sliders are appealing. One area that deserves some attention is the hotel descriptive information. While the photos appear extensive, there is currently woefully limited text that describes the key benefits of staying at a hotel – an issue that could also have a negative search engine optimization impact.
- 3) **Reward Point Eligibility.** While not specifically a major benefit when compared with other meta-search sites, most rate plans provided to OTAs are not eligible for frequent guest reward points. By introducing a hotel-brand endorsed meta-search site, hotel companies may have an opportunity to gain trial and convert formerly brand agnostic travelers into loyalists.

The current beta site is reportedly awaiting the introduction of hotel reviews in March to provide further validation of property quality and service levels. For most hotels, this should serve to improve conversion.

Once critical mass has been achieved on both the supply and demand sides of the website equation, a potential future enhancement would be to incorporate dynamic travel packaging as an option. This could help provide superior consumer savings relative to OTAs while protecting retail pricing structures. It could also help retain customers forced to leave the site to book airline, car rental or destination activities.

### **Nothing Worthwhile is Easy**

While Room Key has launched with a good looking beta website, an experienced CEO and a high profile stable of industry leaders as investors / product suppliers, several significant challenges face Room Key:

### **1) Product Breadth & Depth**

Current product inventory (29,000 hotels assuming 100% engagement by each participant's hotels) is insufficient. Room Key CEO John Davis has mentioned a target of 120,000 properties, but needs other important Top 10 players global like Starwood, Accor & Carlson to sustain momentum.

The product portfolio needs to increase inventory outside North America, grow the number of luxury and boutique properties and attract large representation groups – sectors that are all currently under-represented when compared with OTAs.

Room Key requires ubiquitous hotel supply to shift share from OTAs, drive site traffic and produce strong booking conversion. If sufficient product scale cannot be attained, Room Key will have difficulty navigating the highly competitive OTA and meta-search travel landscape.

One interesting area to watch is if Sabre supports Room Key with participation of its 10,000+ SynXis properties or if Room Key is perceived to be a threat to Travelocity. Blackstone, given its significant investment in Travelport/Orbitz, appears supportive of Hilton's Room Key role.

### **2) Advertising Spend**

With IDC estimating annual global travel advertising spend at \$39 billion, attracting attention to a new product – particularly one with global reach, can get expensive.

Online Travel agencies are individually spending hundreds of millions of dollars each year to drive traffic. While exact confirmation is difficult to come by, leaked Google Adwords statistics published by Advertising Age showed Expedia and sister company Hotels.com spending \$5.95 and \$3.3 million respectively on Google Pay-Per-Click advertising for the month of June, 2010 alone.

A more recent Kantar Media analysis projects Google search spending between January and September 2011 at \$92 million for Expedia (across all its online properties, which at the time, included TripAdvisor), \$68 million for Priceline, and \$47 million for Blackstone Group (which includes Orbitz, as well as Hilton, although Orbitz is thought to receive a disproportionate share of the Adwords PPC spend.)

It takes considerable funding – which is facilitated by high margins – to capture prime PPC ad positioning. As Room Key operates with lower “supplier-friendly” margins, it becomes considerably harder for them to compete with OTAs in the PPC arena.

Creating awareness by advertising through traditional broadcast media – an area where Kayak, Priceline, Travelocity, Orbitz, Expedia & Hotels.com have all spent heavily in the past gets even more problematic – especially when sourced from competitors traditionally trying to swing share from each other.

### 3) Search Engine Optimization

The major OTAs not only dominate PPC spend, but also the keyword rankings that drive organic search. At the risk of over-simplifying key SEO principles, websites ideally rank high for as many relevant keywords and keyword phrases as possible to maximize the probability of being found on a search results page.

For Online Travel Agencies, Expedia properties (particularly before the spin-off of TripAdvisor) aggressively optimized content for SEO ranking to blanket destination and hotel related terms.

MAJOR ONLINE TRAVEL AGENCIES & TRAVEL META-SEARCH	
(Note: Figures for US Only)	<u># of Ranking Organic Keywords</u>
<u>Expedia</u>	
Expedia.com	1,054,288
Hotels.com	1,004,230
Hotwire.com	19,586
<b>Total Expedia Properties</b>	<b>2,078,104</b>
<u>Priceline</u>	
Booking.com	527,435
Priceline	18,183
<b>Total Priceline Properties</b>	<b>545,618</b>
<u>Orbitz</u>	
Orbitz	429,156
CheapTickets	55,291
<b>Total Orbitz Properties</b>	<b>484,447</b>
Travelocity	54,161
TripAdvisor	5,729,774
Kayak	1,011,323
<b>Cumulative Ranking Organic Keywords</b>	<b>9,903,427</b>

In rather stark comparison are the number of ranking keywords identified for the top 10 global hotel companies. In aggregate, the participating Room Key brand websites fall short in comparison to Expedia, Hotels.com and Kayak. TripAdvisor ranks for nearly six times more keywords than the seven hotel companies combined. These figures also do not account for the impact of Google Hotel Finder.

#### TOP 10 GLOBAL HOTEL BRANDS

(Note: Figures for US Only)	<u># of Ranking Organic Keywords</u>
<u>Room Key Participants</u>	
Marriott	406,068
Wyndham	265,701
InterContinental	156,354
Hilton	83,064
Best Western	37,225
Choice Hotels	18,732
Hyatt	13,577
<b>Total Room Key Participants</b>	<b>980,721</b>
<u>Other Top 10 Brands</u>	
Starwood	173,195
Accor	128,671
Carlson	81,551
<b>Total Other Top 10</b>	<b>383,417</b>
<b>Cumulative Ranking Organic Keywords</b>	<b>1,364,138</b>

**RoomKey.com**

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The last statistic represents the greatest SEO issue for Room Key. As a new brand, the site currently does not rank for even a single keyword, aside from its own name.

To be successful, and for elevated organic search ranks to take some of the pressure off PPC initiatives, Room Key will not only need to establish itself on the search engines, but first claw its way past its investors and participating hotel brands into the realms ruled by the OTAs. Passing the OTAs will not be a simple task as one can expect both defensive and offensive strategies to be unleashed if threatened.

#### 4) Site Functionality / Differentiation

The Room Key site looks good, but lacking any significant intellectual property protecting its technology or defining unique processes, user experience enhancements made by Room Key may be easily reproduced by competitors.

Room Key would be well advised to develop methods to enhance the integration of descriptive content such that the content can be managed by the hoteliers, but the presentation controlled for consistency and usability by Room Key. Similarly, the deep linking from Room Key to the recipient hotel web site needs to be as seamless as possible. Due to its investors also being suppliers, there will be an expectation of strong conversion.

Finally, if its Flight Search and Hotel Planner products are any indication, Google plans to leverage its Big Data environment to use speed as a key point of differentiation. Room Key will need to capture more data, more quickly and present it in a more interesting, yet efficient fashion.

#### **5) Rate Parity & Last Room Availability**

Pricing is aligned with the Best Available Rates offered by hotels on their own websites – as are the OTA and meta-search sites. Room Key lacks tools like packaging, price opacity, affiliate memberships, opaque product or flash sales to offer visitors a unique discounted price.

At least initially, Auto Club and Senior Citizen rates, frequently available through both the hotel websites and OTAs, will not be available for sale on Room Key. From a strategic perspective, it is likely that these rates will eventually be offered – without them, Room Key is less price competitive for two relatively significant leisure travel segments.

It is doubtful at this point that Room Key will run the risk of cluttering its interface, enhancing its business rules and developing robust customer profiles to enable the sale of highly targeted rate specials. The defined viewership capability that supports the matching of special discounts based on the eligibility of specific travelers not only drastically increases the complexity of a meta-search site, but may make participating hotel chains nervous if negotiated rates and rules are shared beyond the confines of their own websites and central reservation systems.

An area to watch here will be how hotels manage last room inventory between the hotel websites, Room Key and the meta-search/OTAs. One can rest assured the OTAs and meta-searchers will be keeping a close watch on the issue as well.

#### **Enter the Stalking Horse**

The hospitality industry is highly motivated to change the dynamics of the hotel-OTA relationship. The pain points primarily involve:

- a) The size of intermediary margins
- b) Application of rate parity clauses and/or last room availability, and
- c) Limited control over member hotel interaction with OTAs and meta-search sites

As the facts make clear, it will be difficult for Room Key to beat the OTAs and meta-search players at their own game. They are large, well established, and somewhat ironically funded to a large degree by hotel margins.

If Room Key can successfully provide reduced margins for hoteliers while still capturing enough funding to build consumer awareness, Room Key may not need to scale to the size of an Orbitz or Expedia.

Simply providing consumers with an option to shop for comparable product through Room Key structurally pressures the OTAs and meta-search sites to curtail any escalation of margins or demands for easing rate parity

or last room availability terms. Room Key may not need to win the race; it may be successful simply by establishing a benchmark for acceptable terms.

Additionally, Room Key also becomes an attractive distribution alternative that may be promoted to consumers by hotels in the event negotiations with OTAs or meta-search sites break down and sales are suspended through a particular OTA. Sending traffic to Room Key, with its lower margins becomes more attractive than shifting business to another traditional OTA/meta-search player.

The bottom line is consumers will not be attracted to a web site that offers the same products, but lacks any price/value/experience advantage. Room Key may not win the race against its formidable OTA/meta-search stables, but it appears that the hotel companies may be more than happy to place their bets to place or show on Room Key.