Why Expedia or Priceline Might Just Be the Next Great Hotel Brand

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What if Expedia, Priceline, and TripAdvisor had their own hotels?

What if there were less need for hotel owners to rely on hotel management companies like Hilton, Marriott, Hyatt, Wyndham, Choice, or IHG?

What if hotel owners just worked directly with online travel agencies, or even Airbnb, instead of paying hefty fees to the big brands or other consortium or marketing groups?

All these "what ifs" certainly seem a bit farfetched and outside the realm of possibility to the majority of the hospitality industry. But if we take a look at what's happening right now and where the business of hotels is headed, we'd argue that these what ifs could soon become what's now in just a few years.

In fact, we'd argue that this shift in the relationships among hotel owners, brands, and online travel agencies is already taking place, and we'll continues to see it evolve even further going forward. And we're not alone in this line of thinking.

At the Phocuswright Conference in November 2017, Kayak CEO Steve Hafner said, "The big guys in online travel, and I'm fortunate enough to work for one of them, are going to move into differentiation. And that, to my mind, means owning the assets. I would not be surprised to see people moving into the hotel space by actually owning floors or buildings or even chains."

Earlier in that on-stage discussion, when asked where he sees the next big disruption or innovation in travel taking place, Hafner said: "I think we [in online travel] have all innovated on the service layer, and most of the people in the room are working on the service layers, but the true innovation is going to be actually owning and operating the assets — the airplanes, the hotels, not so much the cars actually. But that aspect is hugely capital intensive, and it's ripe for some new ideas, and someone will get there. I have a $100 billion, so it won't be me. If you own and operate the hardware, you can do a lot more on the innovation side than from the service and software layer."

The 'Differentiation' Has Already Begun

In many ways, Hafner's prediction about the online travel agencies moving more into differentiation has come true, and you see that playing out in their relationships with hotel companies.

The last two years have often been dominated by talk of the “direct booking wars” between hotel brands and online travel agencies for the hearts and wallets of consumers. Going forward, you should expect to see these two entities vying not only for consumers, but for hotel owners, too.

We already saw this last summer with Hyatt’s threat to take all of its hotels away from Expedia and its numerous booking channels. In its note to its hotel owners, Hyatt included justifications for why the company was raising its fees for owners of its North American full-service hotels and global select-service properties. Eventually, Hyatt and Expedia signed a new deal, but that hasn’t stopped Hyatt from making its case to hotel owners, demonstrating the power and value of being a part of the Hyatt family.

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And even before last summer, there was the debut of Expedia Partner Central in October 2016. This platform was specifically created by Expedia to deliver business services for hotels that include — but are not limited — to marketing.

Google, too, provides similar promotional services for hotels, and TripAdvisor does the same for hotels that partners with the company. Priceline has its own Priceline Partner Network and even Airbnb is eyeing independent hoteliers, from bed-and-breakfasts to boutique hotels.

Perhaps we may not get to a point where we have physical hotels that are branded as Expedia, Priceline, TripAdvisor, or “powered by Google” anytime in the immediate future, but you can expect these online travel agencies and tech platforms to develop even more programs, or ways to bring more hotel owners into their fold — and try to cut out hotel management companies along the way.

This strategy was even hinted at as far back as 2012 when this “Distribution Channel Analysis” report was published by the Hospitality Sales & Marketing Association International (HSMAI) Foundation. In it, the authors wrote: “Some third-party distribution channels may start to offer similar services as those provided by current franchise and branded hotel organizations. They may develop into a kind of ‘soft brand’ to support client hotels by (1) maintaining a brand presence, (2) providing substantial reservation contribution, (3) maintaining quality metrics for customer evaluation and (4) offering the benefits of a frequency/loyalty program.”

Perhaps these companies will strike their own contracts with independents and change their fee models, offering packages to provide the services that hotel management companies traditionally do: distribution, marketing, loyalty, access to technology, and, maybe even operations expertise (or have that outsourced by another third party). Maybe they’ll launch their own versions of a soft brand collection. Or maybe they just might try to have their own versions of a hotel, similar to how Niido Powered by Airbnb apartment complexes will be.

And after launching their own versions of soft-brand hotel collections or lending their name to hard assets, who's to say the online travel agencies won't be willing to outright buy their own hotels or hotel brands down the line? Whatever these companies decide to do — and how to do it — just know that, at least for now, they are going to do all they can to woo hotel owners, especially independents, going forward.

Here's a closer look at why these companies might just succeed atdisrupting the travel industry all over again.

Online Travel Agencies Are Being Challenged

A Trivago television commercial.

Collectively, the online travel agencies had a tough third quarter in 2017, with investors taking away $20 million in market capitalization of such companies that included Expedia, TripAdvisor, Priceline, and Trivago. Now that they're in an increasingly weaker position, there's more pressure than ever for these companies to evolve and restore shareholders' confidence.

"Online travel agencies are seeing their revenues go down and it costs them more to advertise on Google because the search criteria are going up," said Raymond Martz, chief financial officer, executive vice president, treasurer, and secretary of Pebblebrook Hotel Trust, a publicly traded real estate investment firm that owns a number of both branded and non-branded hotels throughout the U.S. in major cities. "The search price is going up, and the online travel agencies had a tough third quarter. I think they see the writing on the wall. We've had overtures with online travel agencies reaching out to us and trying to find ways to partner more [with us]."

Not only that, but the direct booking campaigns launched by the brands coupled with their tougher negotiation practices have also made it more challenging for online travel agencies to compete.

Shawn Gracey, executive vice president of hospitality for Miami-based Key International, a real estate and development company with a number of hotels in Spain and the U.S., said, "I think you've seen the brands become very good at negotiating. We get communications from brands all the time that say they are going to hold strong on the fee structure."

Martz noted that Marriott has publicly said it can negotiate a commission fee or 10 percent or less from the online travel agencies.

Robert Mandelbaum, director of research information services for CBRE Hotels' Americas Research, also believes that online travel agencies must evolve somehow if they wish to succeed going forward.

"They have to evolve because there are fundamental threats to their existence," Mandelbaum said. "They have to have a good relationship with hotels or they won't have anything to sell."

In addition to facing tougher rates with hotel companies and search companies like Google, online travel agencies may also have to concern themselves with another looming threat: blockchain, or the promise of a universal ledger.

"Blockchain could eliminate the online travel agencies because the transparency of all transactions will be much more direct," Mandelbaum said. "The consumer goes right to the hotel — there's no need for intermediaries anymore."

And while online travel agencies do more than just book hotel rooms, the bulk of their revenue comes from hotels, so it makes sense for them to focus their efforts on the hospitality business as opposed to another one such as aviation.

The "Skift Research Report: A Deep Dive Into Priceline's Competitive Position in Travel 2017″ pointed out the difference in what Booking.com makes from hotel bookings versus what it makes from airline bookings: "The key point that we want to reinforce is that hotel commission rates are in the 10 to 15 percent range for the large chains and 15 to 25 percent for smaller brands that make up the bulk of Booking.com's inventory. This compares to airline commission rates that are anywhere from zero to one or two percent in most developed markets. The rationale for the airline inventory is having a complete product to drive traffic, but the margins on those bookings themselves are much lower than for hotels. Booking.com has recently added airlines, but this is simply pushing traffic into its Kayak platform …"

So, if online travel agencies are going to focus on evolving any one part of their business, the most logical one would be hotels.

Hotels Are Acting More Like Online Travel Agencies

As online travel agencies decide whether to become more like hotel companies, whether by providing some of the hotel brands' services directly to hotel owners or actually owning hotel assets, their counterparts — the hotel brands — are wondering how they might become more like online travel agencies, in some ways.

The more hotel companies pursue asset-light and/or franchise models, the more they begin to resemble the distribution platforms such as Booking.com and Expedia. The reasons for going asset light, many hotel companies would argue, is to please investors; there's nothing more sweet sounding to Wall Street investors than the words "asset light" when describing hotel company business models.

But being asset light has its other perks, too, and when you're asset light and more like a franchisor — think Best Western, for instance — you don't have to deal with the headaches involved in the day-to-day management of a hotel for a measly two to three percent management fee.

One high-level hotel ownership executive who spoke on background to Skift for this story said that the more hotel companies like Hilton, Marriott, and the like churn out more and more brands, "they are creating, synthetically, an OTA [online travel agency] proposition. They're behaving like OTAs," he said, and "they don't have hard assets anymore. They're going from management to the franchising of brands and they're more focused on distribution."

He continued, saying, "Both online travel agencies and traditional management companies are converging in the space of being an online travel agency, or being a distribution platform. The question becomes: What should the OTA do?"

For online travel agencies, providing their expertise in technology and marketing power to hotel owners seems like a natural progression.

However, for hotel brands, the transition from acting as a traditional hospitality management to acting like an online travel agency might prove more difficult, as evidenced by the demise of AccorHotels' experiment with serving as a booking engine for independents, and the challenges faced by Room Key, an online travel agency formed by Choice, Hilton, Hyatt, IHG, Marriott, and Wyndham in 2012.

Flo Lugli, an industry expert and consultant in distribution, metasearch, digital online marketing, and online travel agencies, said she suspects AccorHotels' experiment into distribution of independent hotels didn't work because it was actually different from what the online travel agencies do.

"They were aggregating similar independent hotels with their own brands and it was a scale play," she said. "But they didn't have access to every single hotel in a market. To compete with the online travel agencies who are spending several billion dollars a year in marketing is an expensive undertaking. Just because you have the capability of having content doesn't mean you'll be successful in bringing customers to your site, or doing it in a way that's economically viable to run a business. I'm not surprised it didn't work; AccorHotels at heart is a hotel brand company and hotel operator."

While history seems to suggest that it might be easier for online travel agencies to become more like traditional hotel companies, the same doesn't seem to apply for hotel companies becoming more like online travel agencies. Regardless, it's clear that both sides seem willing to learn from one another, and to test out whether their respective models could, potentially, work for the other.

Brands Aren't What They Used to Be

Aside from Arne Sorenson and Bill Marriott, we highly doubt there are many people who can perfectly, and without hesitation, rattle off each and every single one of Marriott's 30 hotel brands. And that's just Marriott. That's not taking into account the 14 brands and counting from Hilton, the 28 brands of AccorHotels, or the 13 brands of InterContinental Hotels Group, just to name a few.

Simply put, there are a lot of hotel brands out there. Why? Because having a lot of brands generates money. It lets companies open up new hotels in their brand family just down the street from another one of their branded properties without violating radius restrictions or area of protection rules that would prevent two Hiltons being built too close to one another, for example. That's why you can have a Hilton and a Hilton Garden Inn, for example, on the same block.

Having a lot of brands is exactly what asset-light companies strive for as well. It's how they demonstrate growth to their investors, and generate revenue with very few incremental costs, leading to greater profits.

And while some industry experts argue that there is infinitely enough room for even more hotel brands to emerge, others strongly disagree.

"A brand is less relevant today than it was 20 years ago," said Martz. "Sixty percent of our hotels are in the independent sector. We have a front row seat to this."

Still, Martz said that while he doesn't see brands ever going away completely, they've simply lost their relevancy over time.

The hotel real estate executive with whom we spoke said the very fact that a company like Marriott can have 30 brands and still target the consumer is proof that brands don't matter nearly as much as they used to. "It means the customer is becoming a little insensitive or indifferent to where they are staying as long as they are staying in a good hotel."

Skift Research's U.S. Experiential Traveler Trends 2018: Annual Survey on Traveler Behavior, Motivations & Preferences showed that a quarter of the more than 2,300 respondents in the study have zero preference for hotel brands or independent hotels. In other words, loyalty to a branded or a non-branded hotel doesn't exist for them.

What really matters most to consumers today, he said, isn't the brand itself but the rankings and reviews associated with an individual hotel property. "The first thing a customer checks are the rankings and the commentary. That's a much better quality assurance than a brand can provide," he said.

For further proof of that, he pointed to Airbnb. "People choose to stay at an Airbnb based on social ratings and comments from users. They don't need assurance that there's a brand on it. That's part of the dynamics and in essence, the brands are disappearing and what prevails is distribution. If I get the best distribution from an online travel agency, why would I sign up with another company?"

However, as many industry experts have pointed out before, the decision for a hotel owner to choose a brand or not depends on the market his or her hotel will be in. In a market such as New York City for example, which is very crowded but always seems to have high demand for occupancy, being a part of a brand isn't as crucial. But in a smaller market, going with a brand might be better than going it alone.

And other owners still might consider a different option: joining a soft brand collection like Marriott's Autograph Collection, Hilton's Curio Collection, or Choice Hotels' Ascend Collection, for example. These "soft brands" allow independent hotel owners to keep their own hotel names while having access to the bigger brands' distribution, marketing, and loyalty platforms for a fee. Lenders, in particular, favor brands and soft brands over independent hotels.

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While it's hard to pinpoint exactly how much these owners pay in fees to join these soft brand collections, most estimates say that owners who join soft brand collection are paying, more or less, the same amount of money to be a part of a soft brand collection as they would to carry the flag of a Hilton, Marriott, or Hyatt.

A preliminary Skift Research investigation into the difference in royalty fees paid for soft brands versus normal brands showed that, on average, soft brand royalty fees were approximately 30 basis points lower than the overall average for a traditional hotel brand. For example, franchise disclosure documents filed in Wisconsin for Choice Hotels showed a five percent royalty fee for its Ascend Collection and a 5.3 percent average fee for its other brands. For Marriott, the difference in fees for a soft brand versus a traditional brand is approximately 50 basis points. However, when you consider other fees owners pay to the hotel companies, such as fees for loyalty, marketing, reservations, and brand standards, the total amount in fees that they would pay to be a part of a soft brand are more or less the same as to be part of a traditional brand.

What these owners are paying for with soft brand collections isn't for the names gracing their front doors; they're primarily paying for access to the brands' booking engines and loyalty members.

David Roedel, partner of Roedel Companies, a Nashua, New Hampshire-based owner-operator of hotels, event centers, food-and-beverage outlets, and government lodging, said his company decided to join Hilton's Curio Collection soft brand for its latest hotel primarily because of the access to Hilton's reservations system and its loyalty members and to "mitigate risk." Roedel said the cost of being a part of Curio versus being a part of one of Hilton's other brands is "about the same" but that having the Hotel Saranac, an historic boutique property in Lake Saranac, New York, part of Curio meant having the "freedom to develop the best brand for that market."

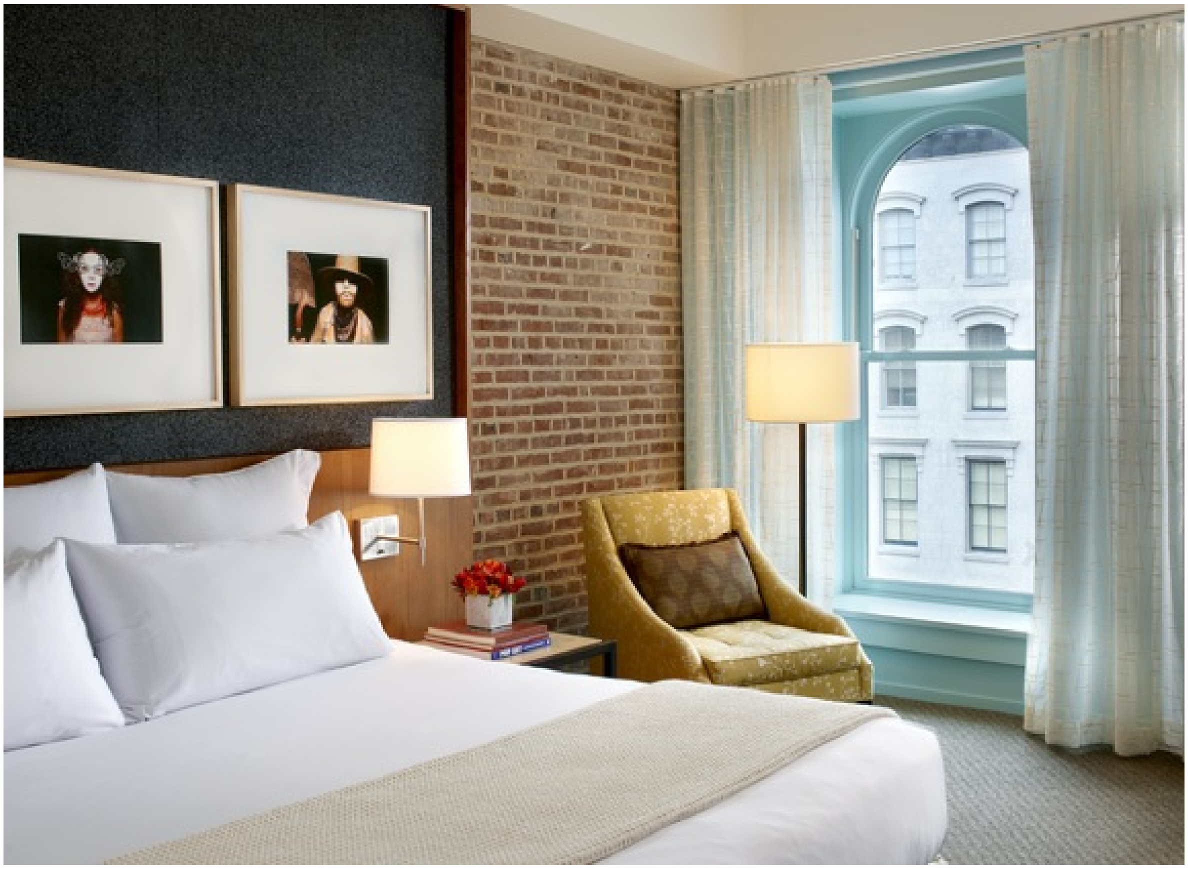
But even before approaching Hilton and joining its Curio Collection, Roedel and his team needed to make sure they had a brand story or narrative to present to Hilton. "You come to them with your story and the brand," he said.

Joining a soft brand also comes with various brand standards for hotel owners to adhere to, although they're generally not as numerous as those attached to a branded flag.

Roedel and the Hotel Saranac's lead interior designer, Susan Pollio, principal of RSJ Associates, said that while there weren't as many brand standards for them to meet as if they were working on a Hilton property, there were still some standards they needed to fulfill when working on the Hotel Saranac — not an easy feat when you're dealing with a historic property.

Which begs the questions: Can a hotel owner ever retain real, true independence if he or she joins a soft brand collection? Are the costs associated with these collections worth it? And if a soft brand isn't all that different from a "hard brand," what's the point?

Independents Are Thriving



The independent boutique hotel group 21c has 90 rooms integrated into a museum and restaurant at its Louisville, Kentucky, property. Credit: 21c Museum Hotels

Another reason why online travel agencies may have visions of having their own branded hotels, or at least desires to have more direct relationships with hotel owners, has to do with the fact that independent and/or boutique/lifestyle hotels have been very successful, and that's in large part due to the level of transparency that online travel agencies and metasearch engines have provided when it comes to hotel pricing.

According to STR data, independent hotels have exceeded the revenue per available room growth of many branded hotels in recent months and, according to the hospitality real estate executive Skift spoke to, "That begs the question about the relevancy of the brands. You're going to have a lot of owners question the real benefits of a flag in an era where TripAdvisor and Expedia ratings and social media are very powerful vehicles."

In its most recent Boutique Hotel Report, The Highland Group notes that the boutique hotel segment in the U.S. alone was a $15.8 billion industry in 2016, and that independent boutique hotel supply grew six percent annually since the year 2000. It also noted that boutique hotels generate more annual room revenue per available room than most comparable traditional hotel concepts overall, something that may also be influenced by the fact that independents and boutiques tend to skew more toward the upscale and luxury markets.

The same executive also noted that the recent sale of Avendra, a hospitality procurement services provider, to Aramark by Marriott, Hyatt, Fairmont Hotels, ClubCorp, and InterContinental Hotels Group shows that independents no longer need to worry about the purchasing power that brands used to provide for their owners.

“You can now get the same benefits of the supply chain from someone else like purchasing agents,” he said. “You don’t have to buy it from the hotel company anymore.” That means that owners can choose to adjust the amount they want to spend on certain amenities, for example, to adjust their costs to their average daily rate.

Loyalty Can Be Expensive

Aside from distribution, another driving force behind many owners’ decisions to go with a brand or soft brand relates to loyalty: access to millions and millions of loyalty members who collect points in the hopes of redeeming them for free hotel nights, special access to unique experiences, and perks like complimentary amenities.

But loyalty, some developers and owners have argued, can be expensive and costly for hotel owners.

The hotel development executive who spoke to Skift on background said the hotel management companies “are building loyalty on the back of the owners.” He added, “There’s also a conflict of interest where management company credit cards aren’t providing better credit card fees to owners, so the argument of the cost effectiveness of joining a branded company are not coming to fruition.”

But what about all the benefits that the direct booking campaigns launched by Hilton, Marriott, IHG, Choice, Hyatt, and their peers? These campaigns often employed discounted rates for loyalty members and they encouraged consumers to book direct on brand.com sites instead of an Expedia or Booking.com, and Martz said he saw a boost for both his branded and non-branded hotels because of them.

“Whenever Hilton, Marriott, and Hyatt go to war with the OTAs, we love it as owners,” Martz said. “Our branded hotels benefit if the commission fees to online travel agencies go down, and our independents benefit too. There’s a big difference between what online travel agencies charge independent and branded hotels.”

But not everyone is convinced that the investment in direct booking campaigns was really worth it. The same hotel developer executive Skift spoke to said he’s not convinced by data recently presented by Kalibri Labs, which Kalibri said showed that the direct booking campaigns were successful and financially beneficial to hotel owners.

“If you look at the specific profit-and-loss statements for hotels, the cost of management and loyalty fees is very close to the commission fees you pay to an online travel agency,” he said.

Lugli said that the real cost of loyalty for owners is something that needs to be taken into consideration.

“Brands want more customers coming to them so they created those loyalty discounts,” she said. “Let’s say 60 to 70 percent of a hotels’ business is loyalty members, but what’s the dilution factor, or the number of people who would have booked anyway, without a discount? The owner pays that dilution factor at the end of the day. The brands try to sell more franchises, and it certainly drives more revenue to them id those members adopt the loyalty rate. But at the end of the day, what’s the cost for the owners?”

What this all boils down to, effectively, is that hotel owners want to acquire guests, to build their business, in whatever channel costs them the least amount of money. That’s just good business practice.

The purest form of a direct booking isn’t when a guest books a hotel on a brand.com site, because that hotel owner is still paying money in the form of fees to whatever brand with which it’s affiliated. It’s still paying something to be distributed on the brand’s platforms, just as it pays to be advertised on an online travel agency. The only 100-percent direct booking takes place when a guest books through a specific independent, non-branded and non-soft-branded property’s own channels.

One long-time hotel industry executive with experience working in online travel as well as a for a major hotel company and hotel owner told Skift that when you do the math, all of the costs that hotel owners pay to be a part of a brand or soft brand, which is estimated at around 15 percent of all revenues, is equitable to the amount an owner would pay in commissions to the online travel agencies, a percentage that generally ranges from 15 to 20 percent, but only on a consumed room revenue basis.

“If I am paying 15 percent [to a brand] on all of my bookings, but only getting, for example, 35 percent of my bookings from that brand effort, my equivalent commission on a per consumed room basis is close to 45 percent,” he said. “The online travel agency can therefore be a cheaper option if you are deciding between a big brand or being independent and levering up on OTA business and potentially other channels. OTA channel costs are often an overstated issue in making this tradeoff. Meanwhile, an owner is paying fees to a brand for the revenue expertise, or potential RevPAR [revenue per available room] upside, due to lender requirements, or as a perceived safety net in an economic downtown. Especially in big city environments, owners may feel like they can overcome these issues and save on costs.”

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Another thing to note is that a hotel owner can choose how much inventory he or she wants to put on an online travel agency platform and when to open it; commission fees are only paid when a booking is made. Skift Research estimates that hotels that are part of major chains pay commission rates between 10 to 15 percent to online travel agencies, while independents pay anywhere from 15 to 25 percent.

By contrast, when a hotel is a part of a brand, its owner is paying fees to that hotel company no matter what, and regardless of whether or not the hotel is getting bookings via the brand's channels.

Lugli said that if online travel agencies can provide a better value proposition for hotel owners, that might persuade some to work more exclusively with them instead of choosing to work with the hotel brands.

"I was having conversations as early as 2009 and 2010 as online travel agency volume continued to grow and as transparency continued to permeate the market," Lugli said. At some point, with a franchise brand, is there a better value proposition that an online travel agency can offer than a brand? What if Expedia created Expedia Hotels as a brand, just like Amazon is doing with its retail stores? The name recognition is there. As long as they're able to get their reviews, I think consumers would be amenable to staying in an Expedia hotel or a TripAdvisor hotel. How much of a risk is this for the core franchise model? It must be in the back of minds for the brands."

What Could This Look Like?

If online travel agencies were to start getting more into the hotel business, what exactly would that look like? We have some ideas and many are based upon what they're already doing today.

One prime example of this is Expedia Partner Central, which is led by Melissa Maher, the senior vice president of Expedia's Global Partner Group. Speaking to Skift, Maher told us about the extensive networks of local market managers it has employed to work directly with hotels worldwide. "We want to make sure we're working directly with hotels to help support them on any of the needs they have to drive the business they want to drive," she said.

Gary Isenberg, president of asset and property management services for LW Hospitality Advisors, said the online travel agencies' deployment of global market managers is the inverse of the approach taken by hospitality management companies.

"They're taking a decentralized approach to developing relationships with the individuals making decisions at the lowest level in the organization as possible," Isenberg said. "Brands are working from the top down and online travel agencies are working from the bottom up and that gives them that juggernaut control."

Maher said some of the ways Expedia works directly with hotels at the individual hotel level include using Expedia's data to help them, whether through marketing and technology, and her division's primary focus is on especially working with independent partners.

Targeting independent hotel owners, versus those with branded properties, makes a lot of sense, considering the fact that so many branded hotel contracts can last for decades or even longer in some cases. Not only that but many independents already rely heavily on online travel agencies for their business, as this chart from Skift Research's "2017 Outlook on Direct Booking" report demonstrates:

Distribution Breakout for Typical Branded and Independent Hotel Entities

	Megabrand.com	Independent.com
Non-Digital Direct	**30%**	**20%**
Phone, Email, Walk-Ins	15%	10%
Group	15%	10%
Unpaid Digital Direct	**20%**	**8%**
Paid Digital Direct	**10%**	**7%**
Metasearch	4%	3%
Display and Search	6%	4%
Total Digital Direct	**30%**	**15%**
Total Direct	**60%**	**35%**
OTAs	**13%**	**40%**
GDS	10%	12%
Traditional Travel Agent	8%	8%
Managed Corporate Travel	9%	5%
Total	**100%**	**100%**

Skift

"There are many independent hotels that rely on these online travel agencies anyway," said Laurence Geller, founder and chairman of Geller Capital Partners, a luxury hotel investment and management firm. "For the most part, I can think of three in Chicago where 50 percent of their business is coming from an Expedia-type situation. It's almost inevitable that the Expedias of the world will try and lock up certain hotel companies."

Expedia is also developing tools especially designed for hotel employees to use, such as RevPlus, a free revenue management tool.

Expedia's advantages for hotels and hotel owners, Maher said, include those free tools, their expertise in technology, their access to data that's hard to find anywhere else, and their investments in marketing.

"Most of the time, when we have conversations with owners, they're looking to us to ask about how they can better maximize their rates and occupancy and get more business from us," she said. "They're also looking for us for some of that data we have and we also spend time talking to them about additional tools they might want."

And companies like Expedia are also, in some cases, working directly with the brands themselves to develop products like packages for Vacations by Marriott and loyalty schemes with Red Lion Hotels and Motel 6, for example.

Advantages in Technology, Marketing, Loyalty, Distribution, and User Experience

“We want to make sure we’re talking to all levels, to make sure we have relationships at the individual hotel level but the chain level too,” Maher said. “The value we bring to hotels is certainly demand, and demand from various points from all around the world. It’s the marketing opportunities, and the technology expertise.”

That technological expertise is something both CBRE’s Mark Woodworth and Pebblebrook’s Martz noted as an advantage for online travel agencies.

“Because they are so much more tech savvy and able to assist owners in getting up to the level of tech competency that they need to get to, it seems like this is a natural role for online travel agencies to fill,” Mark Woodworth, CBRE’s head of hotel research in the Americas said.

“Expedia is very smart — they have more engineers at Expedia than all the brands combined,” said Martz. He recalled a conference call he recently had with the company about one of his hotel’s websites, and recalled being impressed with the level of detail they presented to him. “They do so much researching and invest in so much monitoring — they said for every 0.2 seconds it took to download the site, we could lose this specific number of customers in the booking process.”

The amount that online travel agencies invest in marketing, in comparison to what the brands spend, is also much larger. Both Priceline and Expedia outspend hotels more than two-to-one on marketing. Seeing that kind of monetary marketing investment in Expedia- or Priceline-branded or affiliated hotels could potentially be much more significant than what hotel brands are currently spending on their hotels. And all those marketing investments have led to incredibly high levels of brand recognition and awareness for the online travel agencies.

Both of the major online travel agencies, Priceline Group and Expedia, also have their own various loyalty programs, too, although they are relatively modest in comparison to the hotel loyalty programs from the large chains. As of the second quarter of 2017, Expedia’s Hotels.com Rewards program had more than 30 million members that have redeemed more than 10 million free nights since the program launched in 2008, and the Expedia+ program has more than 24 million members. Marriott’s three loyalty programs, for example, have nearly 110 million members.

“Online travel agencies’ loyalty programs are also attractive to smaller hotel players who wouldn’t have the resources to build the infrastructure for a program of their own,” said Jeff Maling, co-CEO of Isobar, a digital agency. “All the digital infrastructure surrounding it, like a hotel-branded app, digital concierge, etc. could be built by an online travel agency and scaled across multiple hotels.” Maling believes that the online travel agencies’ abilities to develop more of a virtual concierge or app at scale for independent hotels is also a compelling proposition.

The experience of using an online travel agency to book travel is also, for some, superior than using the brand.com sites. “The fact that they have a cross-segment of so many hotels in any one given destination on their sites has helped make their success,” said Isenberg. “They are so consumer oriented. A consumer can be loyal to Expedia and stay at a Sheraton or a Hilton or all these independent hotels in all these different locations and still earn loyalty points with Expedia. It’s a challenge for brands to overcome that consumer convenience.”

The online travel agencies’ expertise in distribution also goes without saying, and that could also have serious appeal for independent hotel owners that want to get the highest occupancy rates for the lowest cost of acquisition.

Pebblebrook’s Martz, for one, is one of those hotel partners willing to work more with whomever can help his business the best. “We’re going to take what’s best for our hotels. If they come to us with a model that works better and is cheaper and allows us to be more profitable, we can use that model more. If Arne [Sorenson, Marriott’s CEO] and Chris [Nassetta, Hilton’s CEO], can get fees down below 10 percent, the brands get more appealing. We want to have all that pushed down; we’re agnostic.”

Some Potential Models and Approaches

Airbnb’s offices in San Francisco, California. Credit: Open Grid Scheduler/Flickr

If online travel agencies can indeed craft a model that makes it more reasonable and affordable for hotel owners to rely more on their distribution channels than on the brands’, that would be a compelling selling point.

One simple way to do that is for online travel agencies to simply offer lower commission rates below the current 15-25 percent rate for independent hotels who rely solely on the online travel agency for distribution.

Another possible method, perhaps, is for online travel agencies to start acting more like a traditional hotel brand does. Online travel agencies could ask to collect just three percent of all hotel revenues instead of the 13 to 25 percent in revenues generated from bookings made on their platforms. Some industry estimates place the overall percentage of revenues paid to brands in various fees can be approximately nine or 10 percent, or even more in some cases.

“If it costs an owner nine percent of gross revenues to be affiliated with a brand and that comes with distribution, an online travel agency should be less because, at least right now, they don’t offer a hotel owner as much as the brands do,” Bjorn Hanson, clinical professor with the New York University Preston Robert Tisch Center for Hospitality and Tourism, said.

Maling said he envisions a “revenue-sharing scheme” in which online travel agencies might guarantee hotel owners a certain volume of business or premium placement. “Today, a small hotel might have 28 percent of its revenue coming from an online travel agency and it could be 100 percent in the future.”

What’s stopping online travel agencies from launching their own independents-only hotel booking sites and/or giving certain hotels preferential rankings or treatment on their own sites, too? Already, they have multiple brands and sites — would it hurt to add more? And would these “collections” operate similarly to how the brands’ soft brand collections do, or to how traditional independent hotel marketing collectives like Leading Hotels of the World, Small Luxury Hotels of the World, or Preferred Hotels & Resorts do?

“This could go against the Preferred, Leading, and other collections of hotels that are cooperatives,” said Geller. “They [online travel agencies] could knock them out of business. They could be cheaper than these people. That would best be done by them linking with one of these conglomerates. Online travel agencies could say, ‘Get rid of your systems and we can give you more occupancy.’ But in general terms I don’t think that will give them enough outlets — they need the branded hotels, too.”

And what of branded hotels? Will we see the emergence of TripAdvisor- or Priceline-branded hotels at some point? Or will one of the online travel agencies design to develop their own hotel brands, or buy an existing one?

“I once said to Expedia, ‘Why don’t you buy a hotel chain with your market cap?’” Geller recalled. For his part, he doesn’t see that happening anytime soon: “They don’t need to. They’re a delivery system.”

Another potential model to follow could be similar to what Airbnb is doing with the multifamily housing developer Niido to create Niido Powered by Airbnb apartment-hotels.

Or perhaps the online travel agencies borrow from the managed marketplace model that India's OYO Rooms has built. In 2015, OYO Rooms founder and CEO Ritesh Agarwal told Skift, "That distributors are launching sub-brands is, to me, an endorsement of the fact that travel preference in general will move to brands being their own distributors. What remains to be seen is if advantages provided by a brand versus a distributor create greater relevance for the customer."

Why This Might Not Happen After All

No endeavor is without its potential pitfalls and if online travel agencies do indeed decide to deepen their involvement in the hotel business they will have to consider the following.

Firstly, as much as some may believe that brands aren't as powerful as they once were, the fact is that there are those who still care about and value the power of brands. "People do care about brands," said Geller. "Underpinning these hotel brands are standards, safety, etc. — there's so much that goes into it. With a brand, there's somebody to sue, rely on, complain to, a way to redeem and earn points. I think it's hard to compete with the brands."

Another fan of brands, perhaps even more important than the general consumer, consists of the lenders. "Some lenders won't lend to a hotel owner unless there's a brand affiliation. Owners and developers would not do it otherwise," said Hanson. For hotel owners, brand affiliation has its benefits not only in financing but in operating technology, purchasing, and recruitment.

Another important part of the business that Hanson sees as being neglected by the online travel agencies include corporate negotiated rates, and the brands' massive sales forces that power meeting and group sales. Expedia's Egencia, he said, "has a different competency" and he doubts online travel agencies can understand the "optimal mix" of group and non-group business that hotels require.

The brands' expertise in actual hotel operations, such as training for staff, is also something not to be overlooked, Geller and Hanson both noted. Those brand standards for quality are still important and challenging to maintain.

Hanson sees the potential of online travel agencies getting deeper into hotels as an "interesting intellectual exercise more than a likely business outcome in the short term."

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He said, "Online travel agencies are really good at what they do but what they do is a really narrow part of the hotel industry. They can find other people to do the other parts but at that point they're just putting together a variety of service providers. [Partnering with an online travel agency] might actually cost more than just going with a franchisor for some hotel owners."

And what of Google or Airbnb? Both of those entities pose threats to the online travel agency business as well. Google is currently building up its Google Hotels business, and balancing the growth of its travel products with its highly lucrative advertising business.

Airbnb is also making it clear that it wants to attract more hotels, especially independents and boutiques, onto its own platform with its more attractive three to five percent commission rates — a much lower rate than what the online travel agencies currently charge for both independent and branded hotels. And what if Airbnb's business model followed a similar franchise model like Best Western has? What if Airbnb began to approach hotels with its own version of a soft brand collection?

Another potential challenge to online travel agencies developing their own hotels is that they might find themselves in competition with themselves. "Online travel agencies have the ability to drive you to the lowest price point or best convenient option you're looking for without prejudice — they're not controlling that now," Isenberg explained. "But if they build their own hotels they are going against that. Wouldn't they direct more inventory to their own hotels and would that end up hurting their business more than help it? Now that they have a horse in the race, it takes away the edge they have with consumers today."

Airbnb, on the other hand, he said, doesn't face that problem, even as its partnership with Niido develops actual Airbnb-branded hotels with units that are rented out to tenants. "It's complementing their current platform," Isenberg said. "They are just adding more hosts. If an online travel agency adds hotels, they're more in conflict with their own platform. Online travel agencies have to depend on hotels. Airbnb doesn't have to depend on hotels. They just need hosts to rent units on their inventory."

And that therein, lies the eternal struggle between online travel agencies and hotel companies: It's hard for one to exist without the other. As much as the hotel brands and hotel owners may lament the commission fees paid to online travel agencies during good times, they are grateful for the business these intermediaries give to them when times are not as kind.

Geller sees online travel agencies and hotel brands continuing to battle over independent hotels and soft brands, but he believes that as hotel companies get bigger and more consolidated, the more likely they "will coexist with the Expedias of the world."

Whether this concept remains merely an intellectual exercise or becomes an actual reality, one thing is for sure: the brands and the online travel agencies aren't going away anytime soon, and the battle for dominance in travel among all the brands continues.