

WHITE PAPER - 2024

Hotel Distribution: The real cost of direct bookings at the dawn of AI

As a partner to over 10,500 independent hotels worldwide for both distribution and marketing strategies, D-EDGE closely monitors trends in hotel distribution and advertising. Having observed that direct booking trends were increasing we conducted further research to find where this increase was coming from. We discovered that digital advertising campaigns played a significant role. Consequently, we aimed to precisely quantify their impact and associated costs. Additionally, we explored the influence of artificial intelligence in the industry, testing various scenarios. Our findings and insights are shared in this paper, offering valuable conclusions for hoteliers.

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Digital marketing is driving direct booking growth

2023 has seen a very strong recovery in gross revenue from online channels. Despite some slowdowns in the corporate sector and an ongoing recovery in certain regions, the overall demand within the hospitality industry has remained strong.

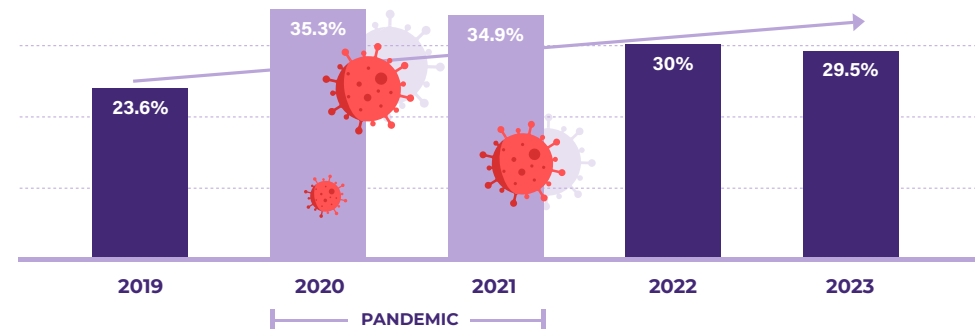
↗ Growth of online bookings Revenues since 2019: **+66%**

Direct booking share is growing faster

The direct revenue share increased from 23.6% in 2019 to 29.5% in 2023, a growth of 24% over the same time period.

This consistent increase in direct bookings highlights a shift in consumer behaviour that began during the pandemic. At that time, it was hypothesised that travellers showed a preference for booking directly with hotels due to a greater sense of trust established through direct communication, more flexible cancellation policies, and a clearer understanding of the hotels' anti-COVID-19 measures ([see our report](#)). However, the continuation of this trend beyond the pandemic suggests other influencing factors, possibly the growing positive impact of online advertising strategies.

Share of Direct Distribution remains much stronger than before COVID



Evolution of the share of direct bookings (in value) in the total online distribution

The large growth during the pandemic was expected to fall, however direct bookings still grew by 66% compared to pre-pandemic level. In 2023 the direct channel contributed to 29.5% of the revenues generated online by hotels worldwide.

Ad-driven strategies raise direct revenue to 36%

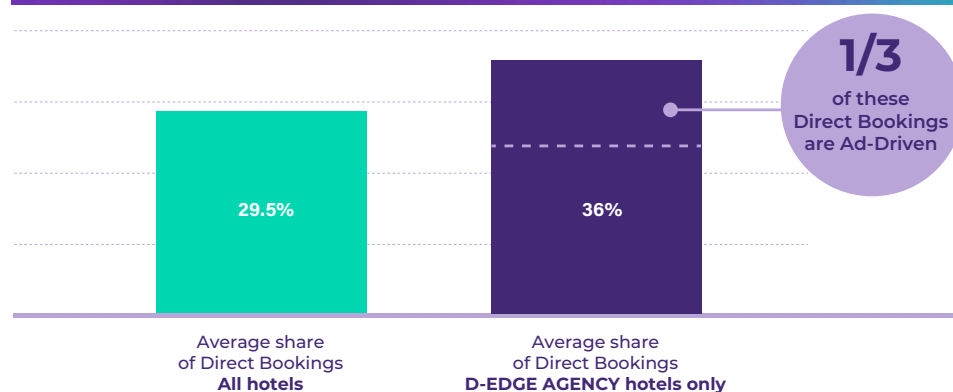
In our research, comparing the average direct revenue generated by all our customers with those who invest in ad-driven efforts, we observed a notable distinction.

“

When we split our customer panel, separating hotels using our digital ad services from those who aren't, the result was striking: those utilising digital advertising generated 20% more direct revenue than those who didn't, accounting for an impressive 36% of their online revenues generated through their website.

explains Jean-Dominique Brivet, Chief Digital Agency Officer at D-EDGE.

Hotels with a strong digital strategy get 36% of their online booking revenue from direct channel

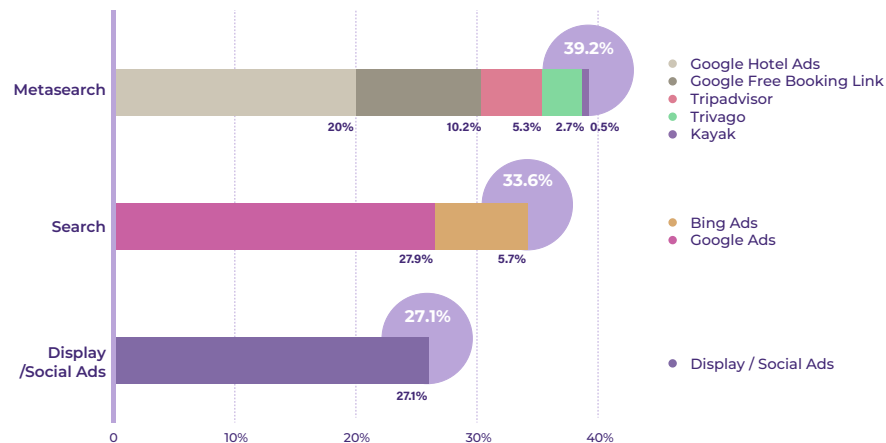


2023: The Impact of Digital Advertising
on the Share of Direct Bookings

Comparing the direct bookings revenue share of hotels which do run ad-driven campaigns versus hotels that don't, our findings show that hotels with ad-driven campaigns generated 7 percentage points more bookings on average than hotels that don't.

Digital advertising: Metasearch remains the #1 direct booking provider

39% of the ad-driven bookings (in value) are generated by the metasearch



Consistent with the projections of our 2017 study, metasearch engines have maintained their status as the primary revenue drivers in the ad-driven direct bookings, with Google taking the centre of the stage.

As of 2023, Google accounts for 61% of the revenue generated through ad-driven campaigns for hotels. This proportion has remained stable since 2020, signifying Google's sustained dominance in the digital marketing landscape for the hospitality sector.

This dominance was bolstered by Google's capacity for rapid innovation and incentivising through free connections. Ideas that could be adopted by other metasearch providers in the industry to grow market share. New solutions such as Google Performance Max, Free Booking Link (FBL) are successfully growing the relevance of their Hotel Ads product, to name a few. Note that Google Free Booking Link requires that the hotel is connected to Google's Hotel Ads platform via the booking engine.

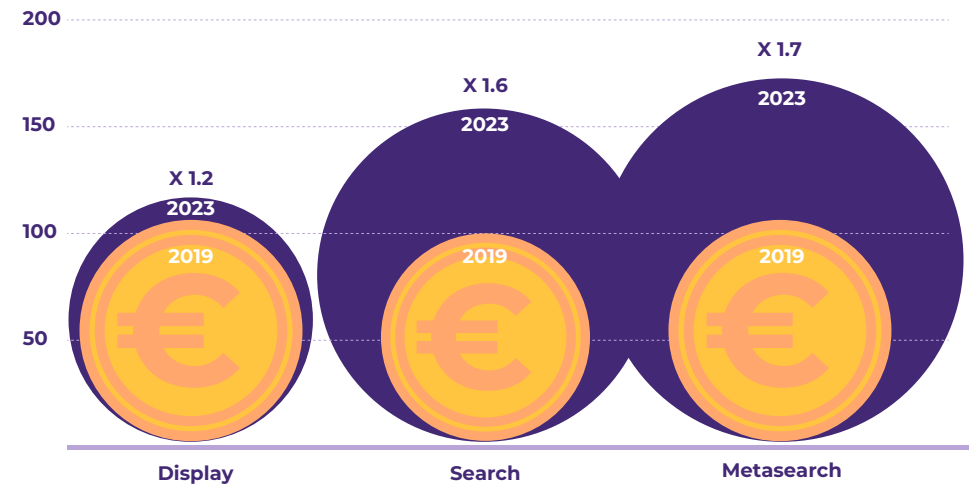
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“The widespread adoption of Google Free Booking Link has successfully incentivised hotels that had not been doing metasearch advertising to start. At the same time it has improved the return on ad-spend associated with Google Hotel Ads for hotels that were doing metasearch advertising, rendering it the most cost-effective option among metasearch platforms.” says Jean-Dominique Brivet.

Metasearch and Search are growing the fastest

Metasearch and Search advertising continue to exhibit a steady growth for hotel advertising, with metasearch growing the fastest, at a staggering 69.3% growth compared to 2019. Display and Social ads have seen a slowed growth rate with only 16.6% growth over the same period. This shift may be due to Apple announcements (in 2021) regarding the phasing out of third-party cookies. The travel and hospitality industry has historically relied on cookies to track consumers across the web and display targeted ads based on browsing history. Given that display ads, particularly in pre- and re-targeting, heavily depend on cookies, it is unsurprising that this channel has been most affected by these changes. As new AI based targeting solutions are being developed – see Chapter 04 – we could see this trend improve.

Metasearch is generating 69% more direct revenues than in 2019



Revenue Evolution by Ad Channels: 2019-2023

Hoteliers are increasingly generating revenue through digital ad channels. While Metasearch has shown the most significant progress, with revenues on this channel increasing by 69% since 2019, it is beneficial for hoteliers to maintain a combination of all three media channels to optimise direct bookings.

The cost of ad-driven bookings is decreasing

*All channels combined, the cost of digital advertising, **decreased by 12.5% since 2019**. How come? And how is this impacting the distribution cost of a hotel? These are the points we will see now.*

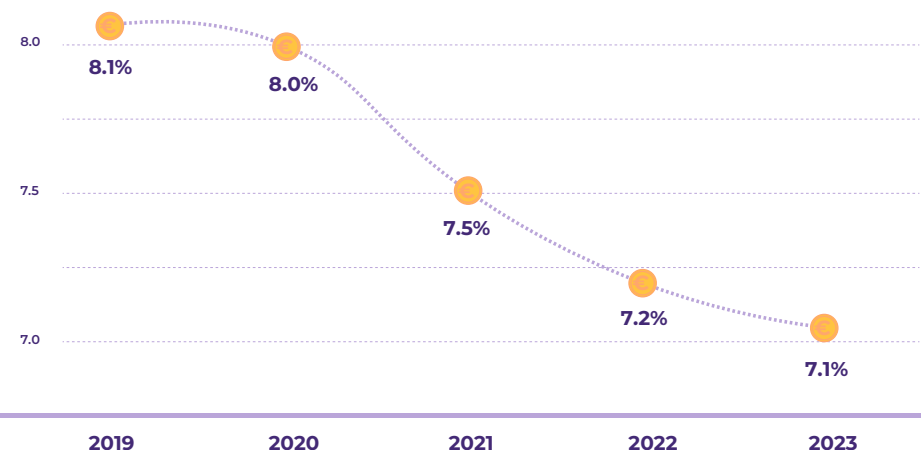
The declining cost of advertising: a positive trend

We have seen a steady decline in ad-driven direct distribution costs, on both Google and Bing. Since 2019, when the cost stood at 8,1%, there has been a consistent decrease, culminating in a record low of 7.1% in 2023. While 1% point might not seem like a lot, to put this in context it is a 12.5% decrease in distribution costs.

This improvement is attributed to three key factors:

- 1. Lower Cost per Click (CPC)**, achieved through campaign optimisation, better channel management, constant trial and use of new functionalities such as AI – see Chapter 3.
- 2. Google Free Booking Link (FBL)**, generating 10.2% of the ad-driven direct bookings, and with no cost for the hotelier, has played a pivotal role in reducing the Cost Per Acquisition for paid campaigns.
- 3. A global increase in the Average Transaction Price**, driven by the increased demand for travel and higher ADRs globally. In other words, the rates for hotel rooms have increased more than the cost per click.

The cost of distribution for ad-driven direct bookings is decreasing over time



*The average distribution cost of the direct bookings generated via digital advertising has never been lower than in 2023 at 7.1%**

✦ How is the ad-driven direct distribution cost calculated?

To determine this percentage cost, we sum the advertising costs, connectivity cost, and average marketing management fees, and then divide the total by the gross booking value. Example: 2,500€ Advertising costs + 230€ Connectivity cost + 250€ Marketing management fees = 2,980€. The gross booking value for that time period was 41,971€. Making the ad-driven direct distribution cost 7.1%

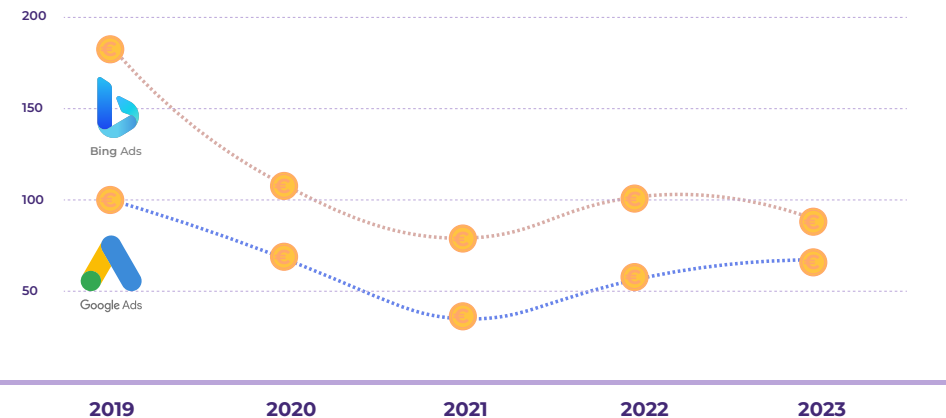
Cost Per Click is still below pre-pandemic on both Google and Bing

The COVID-19 pandemic led to a marked decline in Cost Per Click (CPC), significantly affecting major platforms like Google Ads and Microsoft (Bing) Ads. This decrease was mainly due to a drop in demand and a consequent reduction in ad space competition. However, despite the industry's gradual recovery, CPC on these platforms have continued to stay below pre-pandemic levels. In terms of Cost Per Acquisition, both Google and Bing Ads have exhibited similar costs.

That being said, the Average Transaction Price achieved through Bing Ads has consistently been higher than that of Google Ads. This disparity could be due to differences in user demographics or the platforms' varying effectiveness in targeting potential customers. These observations are particularly relevant in the context of this study when considering Microsoft's strategic interest in AI.

The CPC for Search is still below pre-pandemic level

Bing Ads vs Google Ads



This chart shows the evolution (index 100=Google 2019) of the average cost per click on Google Ads compared to Bing Ads. Google Ads are consistently lower than Bing Ads. This is possibly due to the difference in demographics from the two platforms.

The best performing hotels see their distribution costs drop to 5.2%

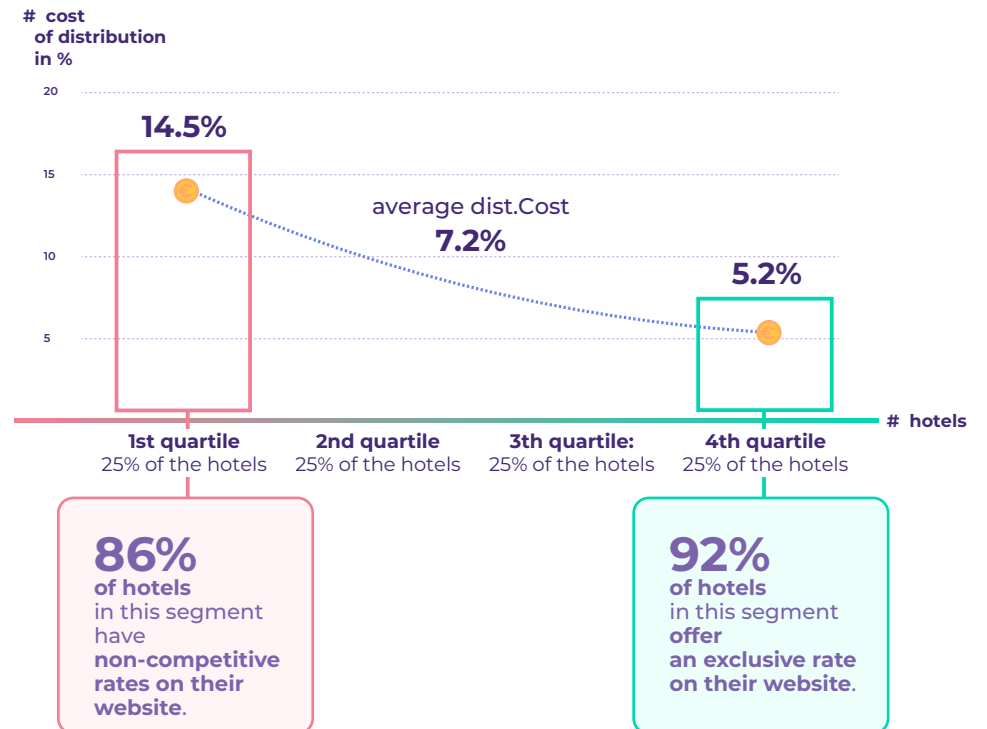


“A deeper analysis reveals significant performance disparities among different hotel customers. The top 25 percent of hotels have managed to lower their average distribution costs to as little as 5.2%” highlights JD Brivet.

In contrast, the bottom 25% have faced an average distribution cost of 14.5%, not very far from average commission costs on OTAs.

In analysing the wide variance of results, one common point we saw was that the top performing hotels had set-up exclusive rates or offers on their websites thus improving their chances of conversion. The least performing hotels had rates that were not competitive on their websites, thus converting fewer reservations than they could.

Low Distribution Costs come with Exclusive Rate Offerings on the Hotel's website



Average Distribution Cost by Hotel Performance Quartile

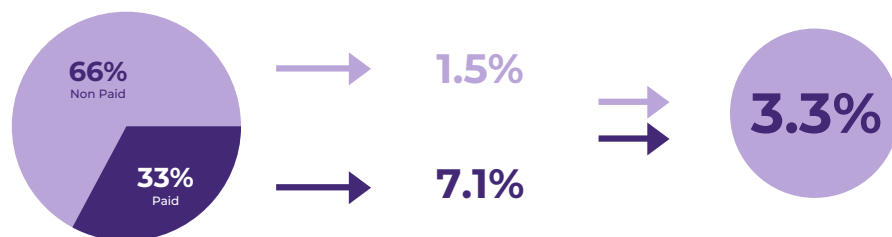
Average cost of Direct Distribution

An additional point we analysed was the total cost of global direct revenue. That average cost -adding up direct costs such as digital advertising and indirect costs such as SEO, Website, technology -comes to a **figure of 3.3%**. A percentage well below the commission rates of all the other sales channels.

Average cost of Direct Distribution

Split Paid / Unpaid
Origin of Booking: Direct Digital
Advertising vs. Generic traffic
2023

% Distribution Cost
(per source)

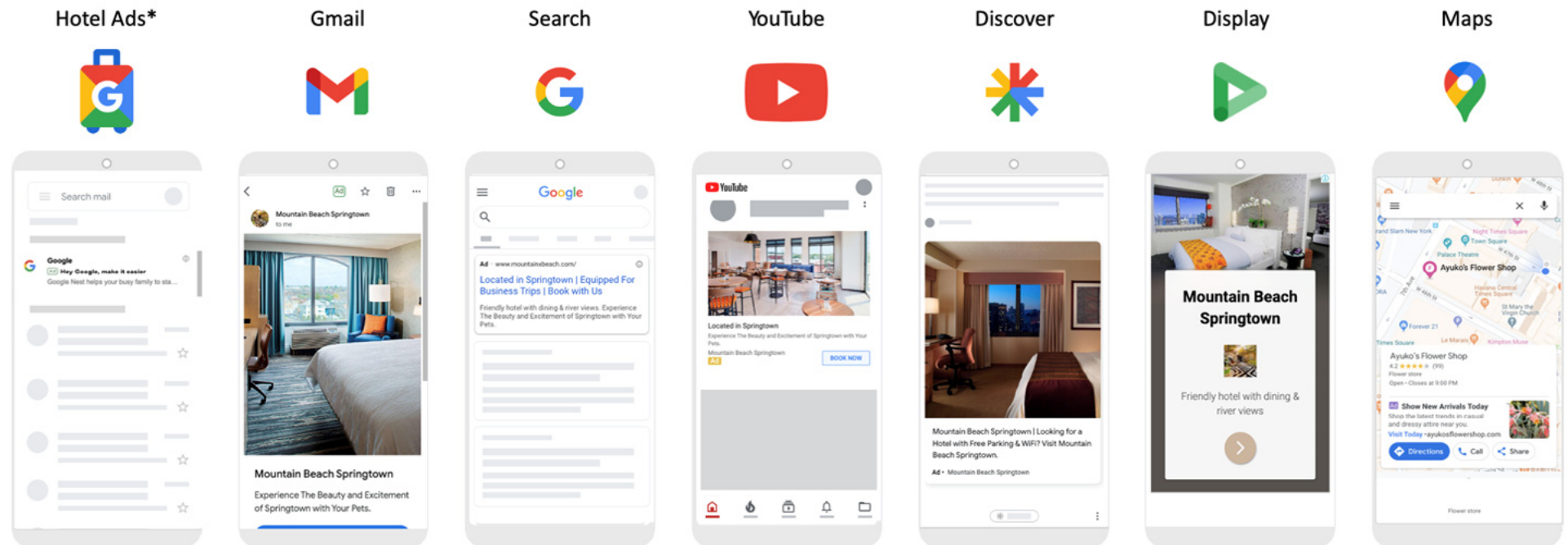


The average cost of direct distribution is calculated by aggregating the expenses associated with bookings generated through both non-paid and paid traffic. For non-paid traffic, we have included the costs related to website development, booking engine, SEO, email marketing, and widgets. For paid traffic, we have incorporated on top of these, the expenses of the ad campaigns.

Direct Booking growth is mainly coming from AI

Artificial Intelligence (AI) has significantly impacted various industries, and the travel and hospitality sector is no exception. A notable example is Google's Performance Max (PMax), which was introduced in 2021. As an automated feature within Google Ads, it leverages Google's machine learning to enhance conversions across its comprehensive network, including Search, Display, YouTube, Discover, Gmail, and Maps.

PMax employs AI to consider various factors in campaign optimisation, such as audience targeting, creative content, budget optimisation, bidding strategies and attribution. Hotels can tailor their budget and bidding strategy, focusing on conversions, conversion value and optional targets like ROAS (Return on Ad Spend).



Google Performance Max distributes ads on multiple platforms according to where the traveler will be searching for a hotel.

More importantly, PMax is a tool hotels can use to compete with large OTAs for the first time. From our tests and experiments (see Chapter 05) we are very confident that this will become a key part of every hotel's digital marketing strategy as a way to increase direct revenue in ways that were previously too expensive or complex.

In parallel to Google, Microsoft's AI-enhanced Bing search engine and Edge browser highlight the transformative role of AI in search and digital advertising. The incorporation of AI-driven search capabilities in Bing has likely influenced the user-base. Using the AI chat function in Bing one can search for the perfect hotel in a much different manner, setting criteria in advance rather than filtering through lists of hundreds of hotels. We do not know how this will evolve, but we can see this will improve the experience and have sweeping impacts on many parts of the guest booking cycle.

Since the launch of PMax we have been testing various scenarios to find the most efficient method for hotels to advertise, increase revenue and optimise costs. In the next chapter we'll share some of the scenarios we had set up and the results.

Microsoft Bing

Make a table of 10 hotels in Paris within 10 minutes walking distance of rue des Archives, have a price below 200 eur per night at the last week of this month for 2 nights. On the table provide the hotel name, rating, walking time from the street and the price.

Client request

Hello, this is Bing. I can help you find some hotels in Paris that match your criteria. Here is a table of 10 hotels that are within 10 minutes walking distance of rue des Archives, have a price below 200 EUR per night, and are available for 2 nights from December 25 to December 27, 2023. The table also shows the hotel rating (out of 10) and the walking time from the street.

Table

Hotel	Rating	Walking Time	Price
Hotel Le Six	10	8 min	199 EUR
[Hotel de JoBo]	9.5	4 min	189 EUR
[Hotel du Petit Moulin]	9.3	3 min	179 EUR
[Hotel Jules & Jim]	9.2	6 min	169 EUR
[Hotel Georgette]	9.1	7 min	159 EUR
Hotel Jacques de Molay	8.3	2 min	149 EUR
[Hotel du Haut Marais]	8.2	5 min	139 EUR
[Hotel Americain]	8.1	9 min	129 EUR
[Hotel du Vieux Saule]	7.9	4 min	119 EUR
[Hotel de la Bretonnerie]	7.8	3 min	109 EUR

Result displayed

I hope this helps you plan your trip to Paris. Have a wonderful day! 😊

An example of how search might change with the advent of generative AI models giving travellers a much more tailored search experience based on their needs at the moment.

The D-EDGE Lab Testing: AI against Legacy Campaigns

*We conducted several large scale tests to determine the best ways to implement AI campaigns, not just Google's PMax but adding PMax to Meta (Facebook/Instagram) AI campaigns as well. Below are the descriptions of the campaigns we ran and the results and recommendations from our **D-EDGE AGENCY** and D-EDGE Labs.*

Scenario 1

PMax replacing manual campaigns

Results

Brand Awareness: ●●●●○

Return On Ad Spend: ●○○○○

Revenue: ●●●○○

Overall: ●●○○○

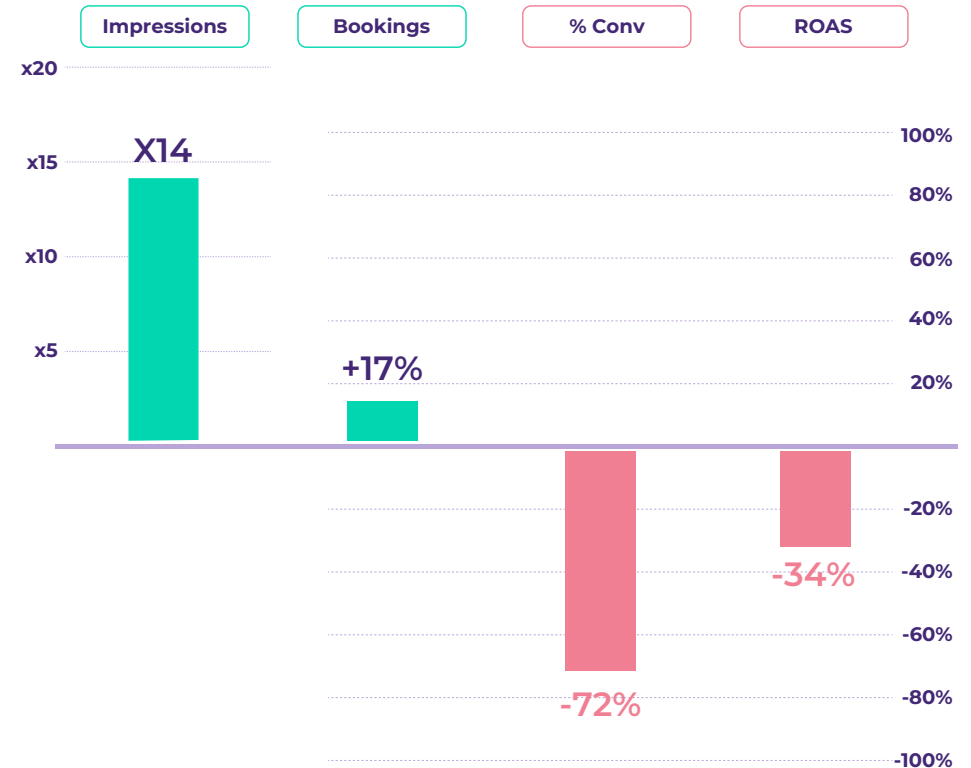
In our first test case we gave the AI total control on bidding strategy and ad placement, while pausing manual campaigns we were running. We set the objective to maximum

revenue and reasonable ROAS (below 10%) and asked the system to optimise on our behalf. The system went very broad and grew impressions by 14X. **Bookings grew as well by 17% which kept us hopeful. However the costs increased by 69%.**

Our conclusion:

While this method is not financially advantageous for an existing hotel, it could be a viable option for a new hotel, particularly one launching in the lifestyle category. The increased impressions would significantly impact the hotel's brand awareness.

PMax replacing Search: Test results



In our first case study we gave the AI algorithm free reign with the intention of generating maximum revenue. The algorithm increased impressions by 14X, bookings increased by 17% but the cost increased by 69% making it an overall negative test on ROAS.

Scenario 2

Combination of PMax and Manual campaigns

Results

Brand Awareness: ●●●○○

Return On Ad Spend: ●●●●○

Revenue: ●●●○○

Overall: ●●●○○

In our second scenario we maintained the manual campaigns that were heavily focused on brand bidding and gave the AI algorithm full reign to bid on brand as well as any other keywords

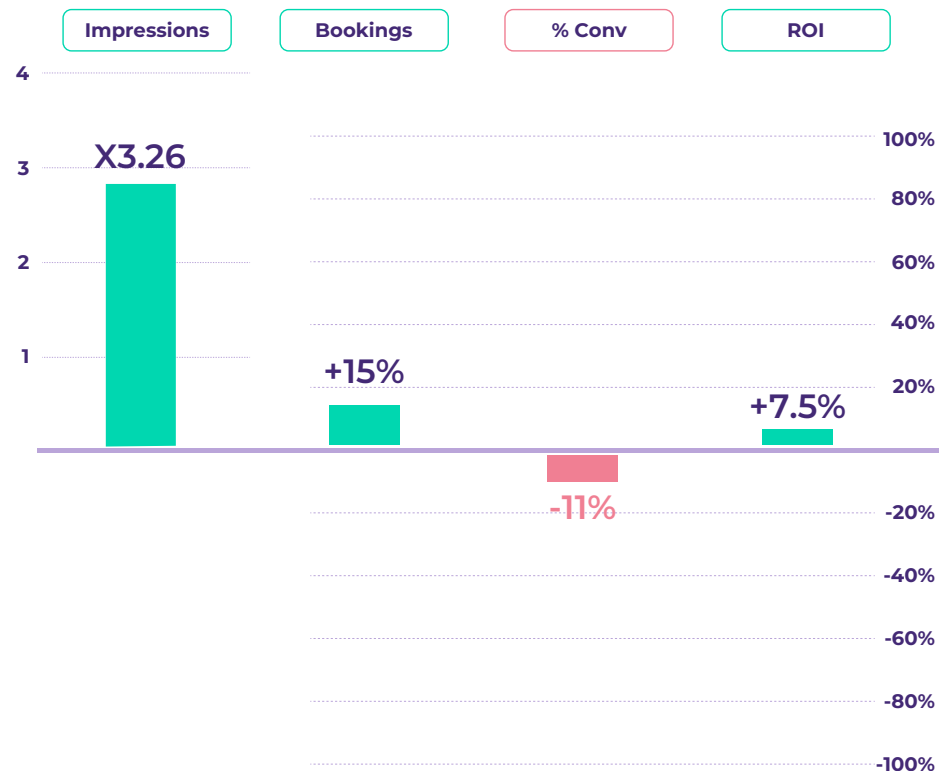
and placements it could find (while searching for more conversions). In short no restrictions on the AI algorithm but at the same time manually bidding on the keywords that drove revenue.

The result here was the most promising. **Bookings increased by 15% for a total cost increase of only 7%.** As can be seen from the large increase in Impressions the algorithm found new placements for the ads and managed to increase bookings from those placements by 15%.

Our conclusion:

This model opens the door to new placements, channels and ways to redirect bookings back to direct channels. Channels that were previously only available to large companies and OTAs with resources for sweeping campaigns.

Combination of PMax & Manual campaigns: Test Results



For this second case study we kept the brand keywords through manual management but allowed the AI algorithm to bid on brand as well. Results were overall positive with a 15% increase in bookings for a 7% increase only in costs.

Scenario 3

Manual plus multi-platform AI placement and bidding

Results

Brand Awareness: ●●●●○

Return On Ad Spend: ●●●●●

Revenue: ●●●●○

Overall: ●●●●●

An additional test scenario we did on a limited number of hotels (45 upscale hotels) was to complement Google PMax with Meta (formerly Facebook) Advantage+ Shopping Campaigns.

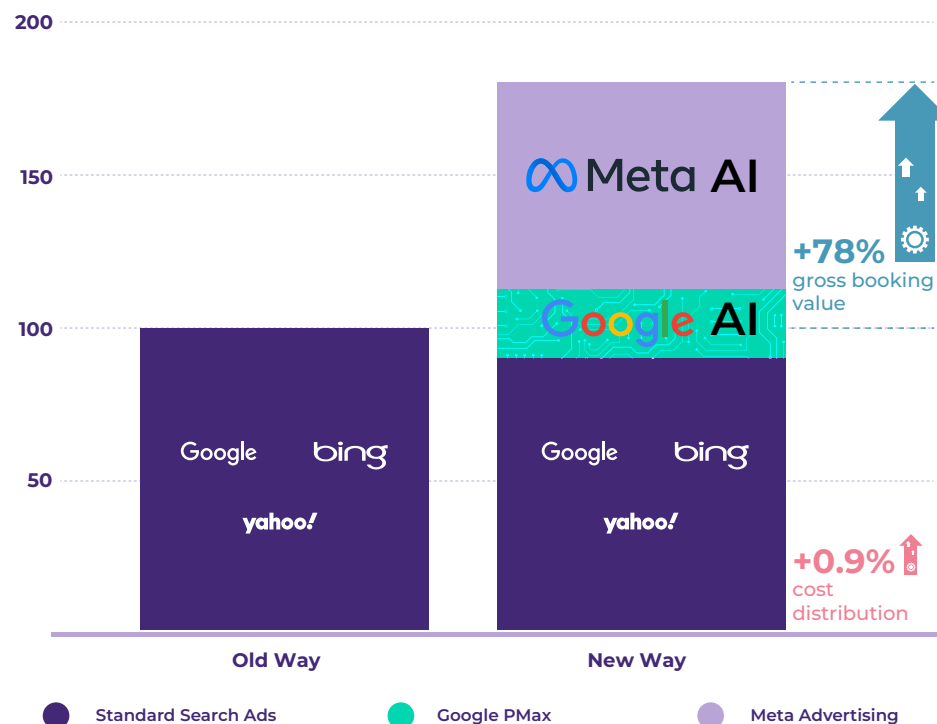
Meta's AI algorithm for Advantage+ Shopping Campaigns has become quite advanced in the e-commerce industry since 2021 when it launched. It is tied to an advanced API connectivity with the booking engine to measure conversions. Similar to Google's PMax, it can be set based on objectives such as conversions, impressions or other objectives.

In this test we looked at how it could perform as a complement to other channels. **The result increased booking revenue by 78% while only increasing the cost of distribution by 0.9%.**

Our conclusion:

Building a complete advertising plan that combines as many channels as possible, optimised by both AI models and human managed models and indexed on direct booking revenue generated was found to be the most effective method of driving direct bookings.

Meta (facebook + Instagram) and Google PMax tests



An additional test case we ran on a more limited hotel set was maintaining Google manual bidding with Google Performance Max and adding to it Meta Advantage+ Shopping Campaigns AI bidding. This increased booking revenue by 78% with costs increasing by less than 1%.

In Summary

Recent advances in AI placement and bidding have increased the possibilities for hotels to grow direct bookings. While the market has seen a surge in bookings during the year, which can not be attributed to AI only, we have seen that these AI campaigns, managed in addition to manual campaigns, have increased the direct revenue share for the hotels that have implemented them.

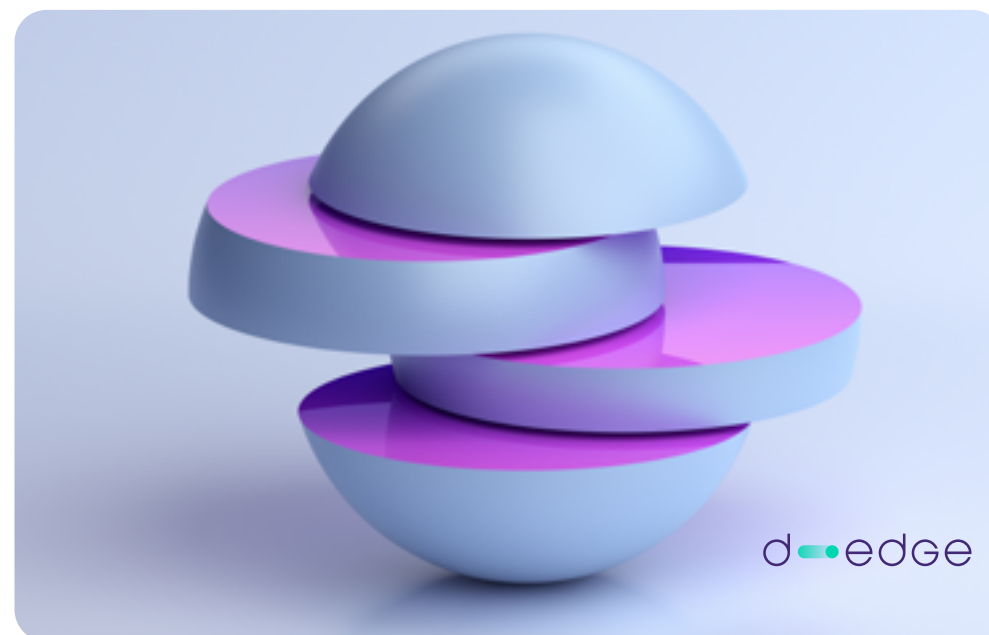
AI based campaigns are not currently able to replace manual campaigns but they provide a breadth of qualified channels that manual campaigns can not do. Complementing manual campaigns with AI driven campaigns however is a winning mix that will enable hotels to market in ways that was previously not possible and only available to OTAs.



“The implementation of DMA in March 2023 is set to significantly alter Europe’s landscape. The anticipated modification in the search page layout is likely to be advantageous for OTAs, as it is projected to enhance their visibility and placement. However, many of the world’s most influential hotel groups and associations have alerted the European Commission to ensure that the DMA fulfils its original objective: to guarantee a level playing field for all the players involved. This evolving situation requires close monitoring.” concludes Jean-Dominique Brivet

Digital Markets Act (DMA), what does this mean?

The European Commission has initiated the implementation of a legal framework to regulate digital markets with the Digital Markets Act (DMA), progressively applicable from March 7th, 2023. Internet giants such as Google and Microsoft will have to comply with a set of obligations and prohibitions or face heavy fines. The European Union (EU) aims to break the hegemony of these behemoths by imposing rules that will benefit both European businesses and Internet users.



Methodology

This study examined 1,221 hotels located across Europe and Asia, encompassing various properties, ranging from independent hotels to hotel groups and spanning categories from 3 to 5 stars. The study focuses on a stable set of clients utilising D-EDGE technology solutions and digital marketing services, from January 1, 2019, to December 31, 2023.

Glossary

Cost of online advertising: this is the cost applied by the major digital players (Google, Bing, etc.) for the use of their advertising services. In this report we have seen that the cost of online advertising is on a decreasing trend and explained why this is the case.

Cost of distribution: this is what the sales channels cost to the hotel in relation to the average revenue from a booking. In this report we focus on the **cost of direct online distribution**, detailing the cost of 'free' direct distribution (i.e. bookings from customers who go directly to the site or who have found it via SEO), and the **cost of ad-driven distribution** (bookings generated thanks to the purchase of keywords, metasearch, banners, etc.). This approach has enabled us to calculate - **and this is the first time this data has been published** - the average cost of direct online distribution for hoteliers.

Discover D-EDGE AGENCY

Digital marketing and advertising offer immense opportunities for hotels in terms of both brand awareness and direct revenue. However, the ever-evolving technological landscape in the hospitality sector's digital marketing requires continuous testing and vigilance at both the micro and macro levels. It also requires a holistic approach to one's digital strategy. To meet this need, D-EDGE, a leading CRS provider, has introduced **D-EDGE AGENCY**.

This specialised Digital Marketing Agency is dedicated to the hospitality industry. With a team of 60 experts, **D-EDGE AGENCY** provides an all-encompassing approach aimed at enhancing hotel direct revenue. It addresses the entire hotel's digital ecosystem, including:

- website development,
- SEO,
- digital advertising campaigns,
- expert tracking and reporting solutions.

As a Google Premier Partner and Meta Partner, **D-EDGE AGENCY**'s services are available independently from the hotel's CRS.

You're just one click away from success

Whatever your situation, our experts are here to identify your needs and find the perfect combination of solutions for your hotel or hotel chain.

Let's talk about your project

