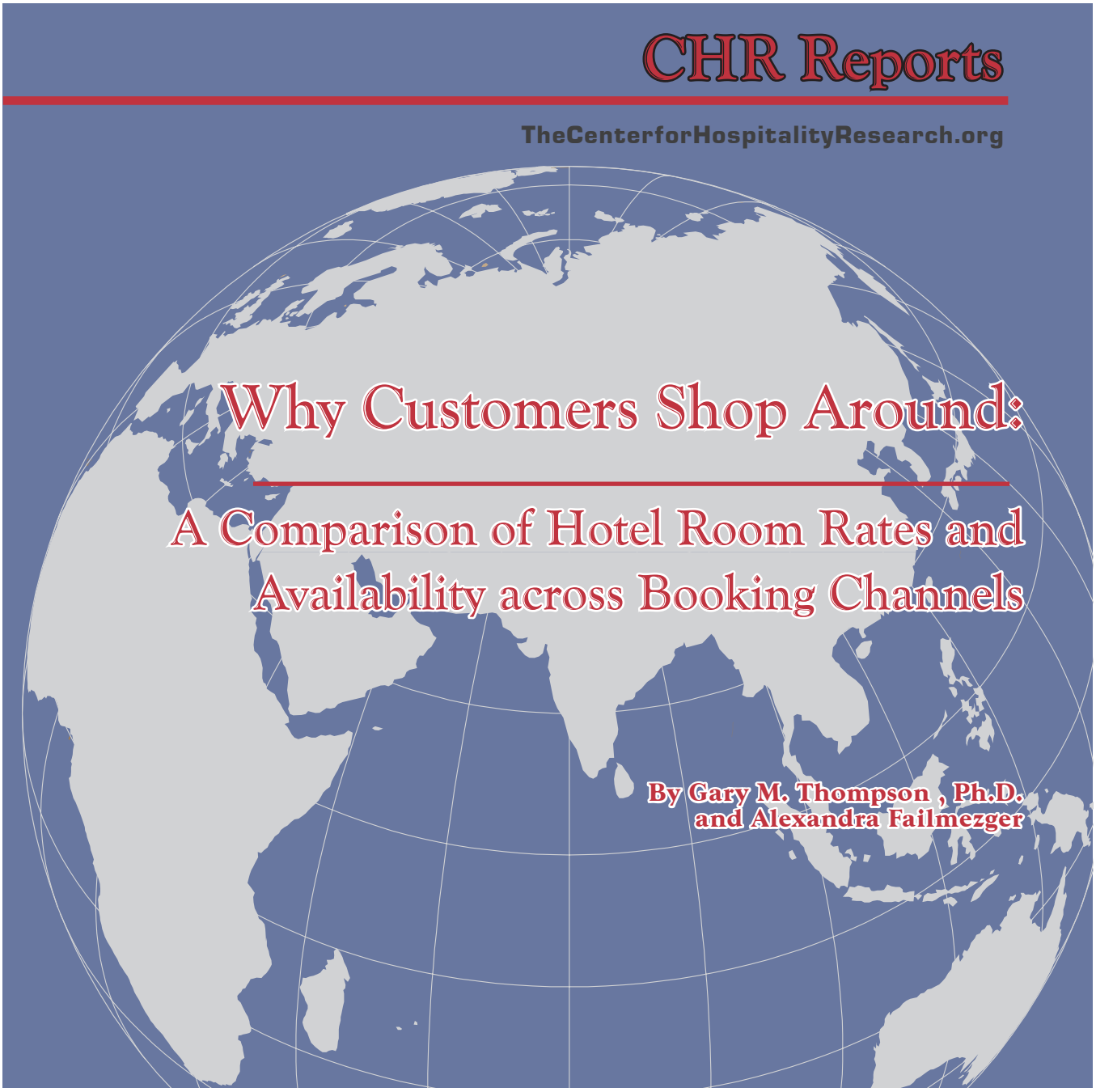
Cornell University
School of Hotel Administration
The Center for Hospitality Research

CHR Reports

TheCenterforHospitalityResearch.org



# Why Customers Shop Around:

## A Comparison of Hotel Room Rates and Availability across Booking Channels

By Gary M. Thompson , Ph.D.
and Alexandra Failmezger

# Why Customers Shop Around:

## A Comparison of Hotel Room Rates and Availabilty across Booking Channels

is produced for the benefit of the hospitality industry by
The Center for Hospitality Research at Cornell University

Gary M. Thompson, Executive Director
Glenn Withiam, Director of Publication Services

## Advisory Board

**Roger Cline,** Chairman and CEO, **Roundhill Hospitality**
**Jan A. deRoos**, Ph.D., HVS International Professor of Finance and Real Estate, **Cornell University**
**Bjorn Hanson,** Ph.D., Global Hospitality Industry Managing Partner, **PricewaterhouseCoopers**
**Unmesh Joshi,** Chairman and Managing Director, **Kohinoor Group**
**Jo-Anne Kruse,** SVP, Human Resources, **Cendant International**
**Craig Lambert,** SVP Portfolio Management, **CNL Hospitality Group**
**Mark V. Lomanno,** President, **Smith Travel Research**
**Suzanne R. Mellen,** Managing Director, **HVS International**
**Leland C. Pillsbury,** Chairman and CEO, **The Thayer Group of Companies**
**Angel Santos,** VP of Marketing for Healthcare and Hospitality, **JohnsonDiversey**
**Janice L. Schnabel,** Senior Vice President, **Marsh's Hospitality Practice**
**David A. Sherf,** SVP, Real Estate and Investment Analysis, **Hilton Hotels Corporation**
**Judy A. Siguaw,** D.B.A., J. Thomas Clark Professor of Entrepreneurship and Personal Enterprise, **Cornell University**
**Barbara Talbott,** EVP Marketing, **Four Seasons Hotels and Resorts**
**Elaine R. Wedral,** President, **Nestlé R&D Center and Nestlé PTC New Milford**
**R. Mark Woodworth,** Executive Managing Director, **The Hospitality Research Group**

A Comparison of Booking Channels
CHR Reports, Vol. 5, No.2 (January 2005)

Single copy price US$50.00
Copyright © 2005 by Cornell University

Cornell University
School of Hotel Administration
The Center for Hospitality Research

## Thank you to our generous corporate supporters.

### Senior Partners

JohnsonDiversey

Nestlé

### Partners

AIG Global Real Estate Investment

Bartech Systems International

Cendant Corporation

Four Seasons Hotels and Resorts

HVS International

Kohinooor Group

Marsh's Hospitality Practice

Thayer Group of Companies

### Sponsors

Willowbend Golf Management

Wyndham International

**Friends** • ARAMARK • DK Shifflet & Associates • ehotelier.com • *Gerencia des Hoteles y Restaurantes* • Global Hospitality Resources • *Hospitality World* • hospitalitynet.org • *Hotel Asia Pacific* • *Hotel China* • Hotel Interactive • Hotel Resource • International CHRIE • *Lodging Hospitality* • *Lodging* Magazine • Mobile MoneySaver • *National Hotel Executive* Magazine • *Resort+Recreation* • RestaurantEdge.com • Shibata Publishing Co. • Smith Travel Research • The Lodging Conference • The Hospitality Research Group of PKF Consulting • TravelCLICK • UniFocus • WiredHotelier.com

THECENTERFORHOSPITALITYRESEARCH.ORG

## Executive Summary

# Why Customers Shop Around:

## A Comparison of Hotel Room Rates and Availability across Booking Channels

**By Gary M. Thompson, Ph.D., and Alexandra Failmezger**

As hotel chains and their would-be guests confront the plethora of electronic distribution channels, they face a complex picture of rates and availability of hotel rooms. In an attempt to sort out which channels offer consistently low room rates, this study found that chains have made considerable progress in fulfilling a stated goal of offering lowest-cost last-room availability on their own websites, in competition with sites operated by third parties. However, a check of 137 possible booking dates in four different hotel segments also revealed that the third-party providers, notably Travelocity, still frequently offer the lowest rate. The old standby of telephoning the hotel for a booking yields the lowest rate less often than does booking on the website or with a third party. However, telephoning the hotel is the most accurate channel for ascertaining room availability. The chains' websites were reasonably good at ensuring room availability, while third-party providers, notably, Expedia, often showed rooms as unavailable at a given rate, when, in fact, the room was available through other channels.

The findings demonstrate the relative consistency of the chains' own websites in offering customers the lowest rate (and thereby gaining the booking), but the fact remains that customers who shop around may find even lower rates. In terms of ensuring that customers repeatedly look to book a particular chain, what makes sense for hoteliers is to maintain consistent rates across all channels, so that price becomes less of a consideration in the booking decision.

## About the Authors

Gary M. Thompson, Ph.D., is professor of operations management and executive director of The Center for Hospitality Research in the School of Hotel Administration at Cornell University, where Alexandra Failmezger is a candidate for the Master of Management in Hospitality degree. The authors wish to thank CHR Advisory Board members Dave Sherf, Judy Siguaw, Ph.D., and Barbara Talbott, Ph.D., for their helpful comments on an earlier draft of this report.

# Why Customers Shop Around:

## *A Comparison of Hotel Room Rates and Availability across Booking Channels*

**by Gary M. Thompson, Ph.D., and Alexandra Failmezger**

The development and growth of the internet has greatly complicated distribution and pricing strategies for hotel chains and their guests, chiefly because of the increase in the number of booking channels that are directly accessible to consumers. Hotel companies have developed their own websites to compete with third-party sites, such as the three we examine here, Expedia, Orbitz, and Travelocity, which have expanded far beyond their initial purpose of booking airline seats.[1]

Pricing strategy has come to the fore with the variety of distribution channels, as hotels have moved to control distribution of their inventory via such policies as consistent pricing of their room inventory across booking channels and their offers of "best rate" guarantees on their own websites.[2] Even worse than offering a multiplicity of rates is the problem of rooms' being reported as unavailable by some channels but available from other channels.[3]

[1] See, for example: Bill Carroll and Judy Siguaw, "Evolution in Electronic Distribution: Effects on Hotels and Intermediaries," *CHR Reports,* Vol. 3, No. 5 (Ithaca NY: Center for Hospitality Research at Cornell University, 2003); TheCenterforHospitalityResearch.org.

[2] See, for example: Jennifer Davies, "Hotel Chain Best-rate Guarantees Taking Hold; Third-party Travel Sites No Longer the Place to Look for the Best Discounts," *San Diego Union-Tribune*, Knight Ridder/Tribune Business News, July 25, 2004.

[3] The first author has personally experienced this contradiction of room availability.

Given those developments in electronic distribution, this study examines the rates and availability of hotel rooms across booking channels. Specifically, we examine five booking channels for four property types across 18 markets. As the reader shall see, our findings have important implications for both consumers and suppliers of hotel rooms. The remainder of this report is structured as follows. First, we present our methodology for collecting the data. Following that, we present our findings and identify possible limitations of our study. We close with our observations regarding the implications of our findings for consumers and suppliers of hotel rooms.

## Methodology

We selected 18 of the largest metropolitan markets in the United States of America for our study. For each market, we randomly selected two properties from each of four property types (or segments)—namely, luxury, upscale, mid-market, and budget. For each of the 144 combinations of market and property we randomly selected a date that was no more than 90 days ahead, for which we attempted to book a room using each of the five booking channels in question. Four of the five channels use the internet, namely, the property flag's own website, Expedia, Orbitz, and Travelocity. The fifth channel we used was a telephone call made directly to the property. For each property-date combination, we randomized the order in which we used the channels. In each case, we were looking to find the lowest generally available rate. We did not consider rates available only to members of a particular organization, such as AARP or AAA. To reduce the likelihood of having rates open or close while we were checking each property-date combination, we recorded rates for all the booking channels within a time span of two hours. All data collection was performed in fall 2004.

Of the 144 property-date combinations, we removed four because there were no properties in the market of the appropriate type (all in the luxury segment). In addition, we removed three property-date combinations because none of the booking channels reported an available room. Of these three, two were from the luxury segment and one was from the upscale segment. Thus we arrived at our final sample of 30 property-date combinations for the luxury segment, 35 for the upscale segment, and 36 each for the mid-market and budget segments, for a total sample size of 137 property-date combinations. Exhibit 1 gives details of the sample.

**Exhibit 1**

**Number of hotels sampled, by flag**

| Flag | Number of Properties |
|---|---|
| Adam's Mark | 3 |
| Amerisuites | 4 |
| Best Western | 4 |
| Comfort Inn | 4 |
| Courtyard | 5 |
| Crowne Plaza | 6 |
| Days Inn | 8 |
| Doubletree | 5 |
| Econo Lodge | 6 |
| Fairmont | 5 |
| Four Seasons | 6 |
| Garden Inn | 4 |
| Hilton | 3 |
| Holiday Inn | 5 |
| Hyatt | 4 |
| La Quinta | 2 |
| Marriott | 6 |
| Radisson | 2 |
| Microtel | 5 |
| Motel 6 | 5 |
| Radisson | 2 |
| Ramada Inn | 5 |
| Red Roof Inn | 5 |
| Ritz-Carlton | 8 |
| Sheraton | 6 |
| Super 8 | 7 |
| Westin | 3 |
| Wyndham | 3 |
| Other | 8 |

**EXHIBIT 2**

**Number of times that each booking channel yielded the lowest cost available room, by property type and overall**

| Property Type | Observations | Expedia | Orbitz | Travelocity | Company Website | Call to Hotel |
|---|---|---|---|---|---|---|
| Luxury | 30 | 9 | 9 | 18 | 13 | 20 |
| Upscale | 35 | 7 | 7 | 22 | 21 | 10 |
| Mid-market | 36 | 11 | 7 | 15 | 21 | 14 |
| Budget | 36 | 12 | 14 | 11 | 20 | 11 |
| All types | 137 | 39 | 37 | 66 | 75 | 55 |

*Note*: Since more than one channel can offer the lowest rate, row totals can exceed the number of observations.

**EXHIBIT 3**

**Average excess booking cost, by channel for each property type and overall**

| Property Type | Expedia | Orbitz | Travelocity | Company Website | Call to Hotel |
|---|---|---|---|---|---|
| Luxury | 15.8% | 10.9% | 5.5% | 10.8% | 7.4% |
| Upscale | 23.6% | 23.3% | 5.1% | 12.3% | 32.1% |
| Mid-market | 11.6% | 15.3% | 8.8% | 6.9% | 14.9% |
| Budget | 14.1% | 5.4% | 8.3% | 5.1% | 9.7% |
| All Types | 15.6% | 14.2% | 6.9% | 8.7% | 16.2% |

*Note*: Overall, Travelocity yielded the lowest average booking cost.

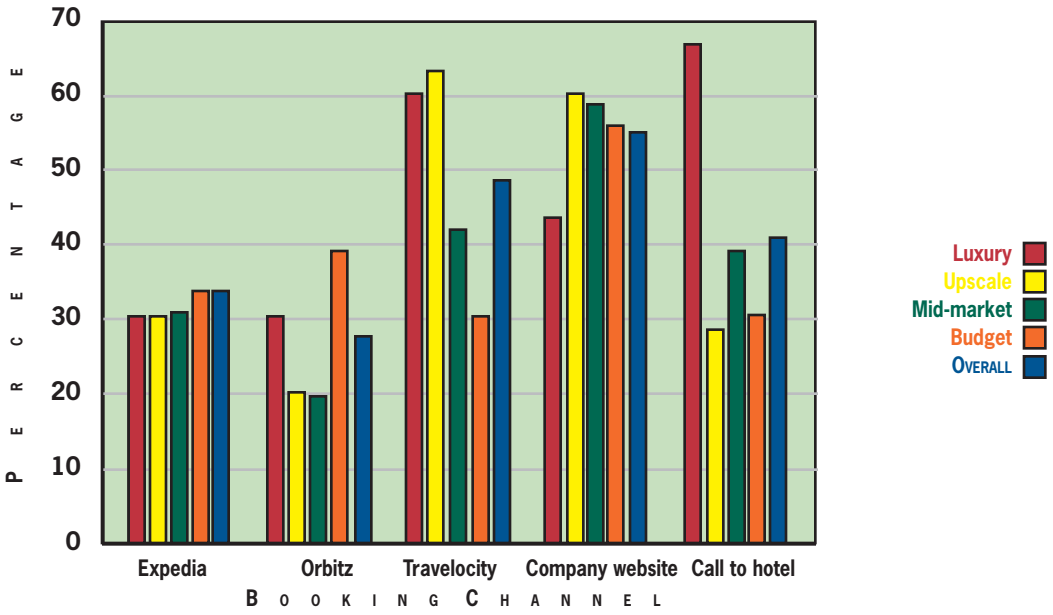
## Findings

No single channel offered the lowest price in every instance, but as we discuss below, the hotel chains' websites showed considerable consistency compared to the other channels. We found some variation among the channels when we examined the four market segments. Of the third-party channels, Travelocity was notably consistent for offering low prices in many segments. The table in Exhibit 2 shows the number of times each channel offered the lowest price. Frequently, more than one channel earned lowest-price honors. With the luxury segment, for example, calling the property yielded the lowest-cost booking for 20 of the 30 property-date combinations, followed by Travelocity, which yielded the lowest-cost booking in 18 cases. For luxury hotels the company's website came in third, yielding the lowest-cost booking in 13 cases, and Expedia and Orbitz were tied with nine cases each. Note that the total number of best bookings, 69, is more than double the number of property-date combinations. This signifies that, on average, more than two channels yielded the identical lowest cost for each property-date combination.

Another way to consider the matter of hotel-room pricing is to look at the customer's "excess booking" cost. Exhibit 3 presents the average excess booking cost, by property type, for each market segment and overall. The excess booking cost is the premium a consumer would pay for a booking if he or she used a

## Exhibit 4

**Percentage of instances that the channel yielded the lowest cost booking, by property type and overall**



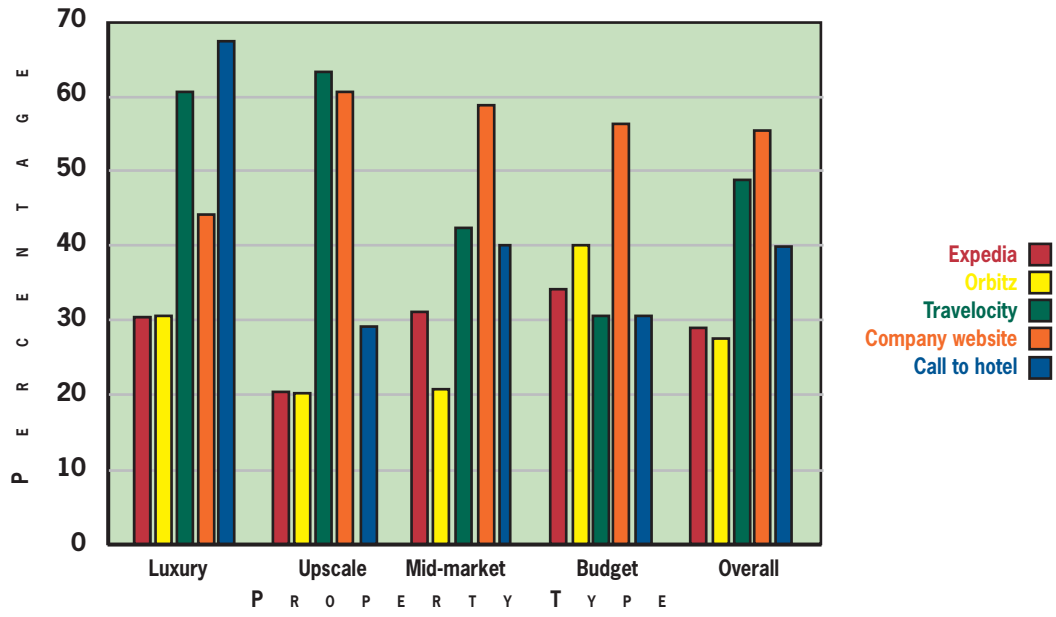

particular channel exclusively, compared to finding the lowest-cost booking across the five channels. For example, if a consumer made bookings only by calling the hotel, he or she would on average pay a premium of 16.2 percent compared to the lowest-cost bookings.

We also consider, in Exhibit 4, the percentage of instances for which each booking channel yielded the lowest-cost booking. This analysis of low-price percentage demonstrates the relative consistency in performance of the company websites as a booking channel. The corporate websites' low-price percentage was never lower than 40 percent, a figure that occurred in the luxury segment. For the other three segments, the chains' websites had an even stronger low-price consistency, offering the best quotes in 55 to 60 percent of the cases. The percentage analysis again shows Travelocity's status as a low-cost third-party channel, particularly in the luxury and upscale segments.

Exhibit 5 (overleaf) restates the low-price findings so that you can compare the channels by market segment, rather than comparing the market segments by channel. This comparison shows, for instance, the luxury segment, where calling the hotel yielded the best rate in over 65 percent of the cases, followed closely by Travelocity. In the upscale segment, Travelocity yielded the highest percentage of lowest rates, followed closely by the company's website. In the mid-market and budget segments the greatest percentage of lowest rates was provided by the company's website.

**EXHIBIT 5**

**For each property type and overall, the percentage of time that each booking channel yielded the lowest cost booking**




## Excess Booking Cost

The graph in Exhibit 6 gives a different look at the average excess booking cost for each booking channel, by property type and overall. The graph depicts that Travelocity had the lowest excess cost and the smallest variance in excess cost across segments. Furthermore, we can see that booking via company websites offered the second-lowest excess cost overall, but that channel showed more variance in excess costs across segments than did Travelocity. Finally, it is apparent that calling the hotel exhibited the largest variance in excess costs across segments.

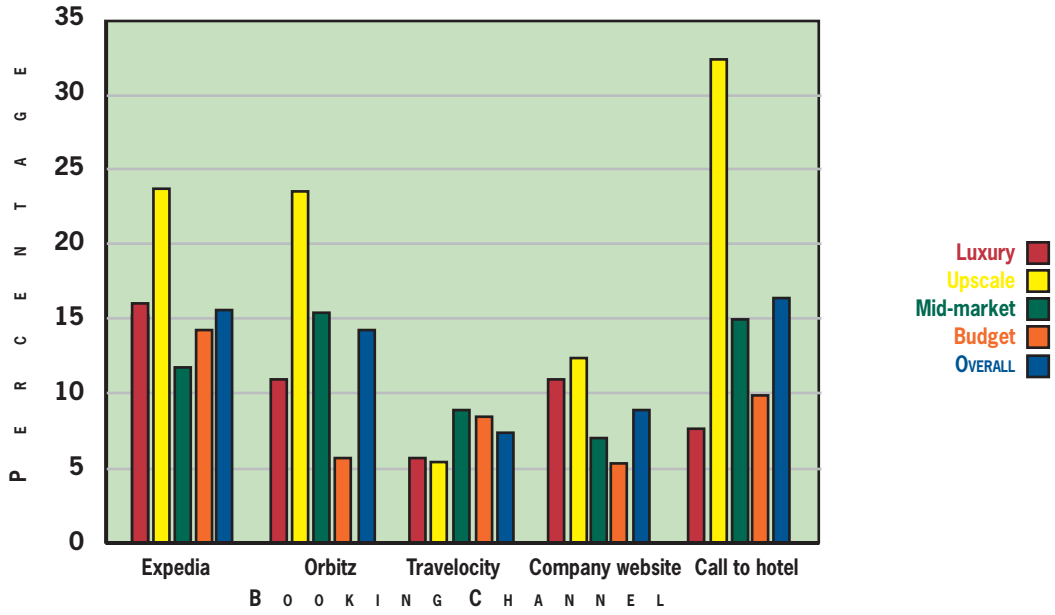
Once again, we refocused the analysis of excess booking cost by comparing each channel by segment, as shown in the graph in Exhibit 7. For the luxury segment we see that Travelocity had the lowest excess cost, followed by calling the hotel. Travelocity was the clear low-cost winner in the upscale segment (offering the narrowest excess-cost percentage), while in the mid-market segment, the company-website channel was lowest, followed closely by Travelocity. In the budget segment, the company-website channel also was lowest most often, but was closely followed in this case by Orbitz.

## Room Availability

While the room-rate analysis is useful, the frequency with which a particular channel (correctly) shows rooms being available is critical. Hoteliers will lose sales when a channel reports

## Exhibit 6

**Average excess booking cost for each channel, by property type and overall**




## Exhibit 7

**Average excess booking cost by property type and overall for each booking channel**

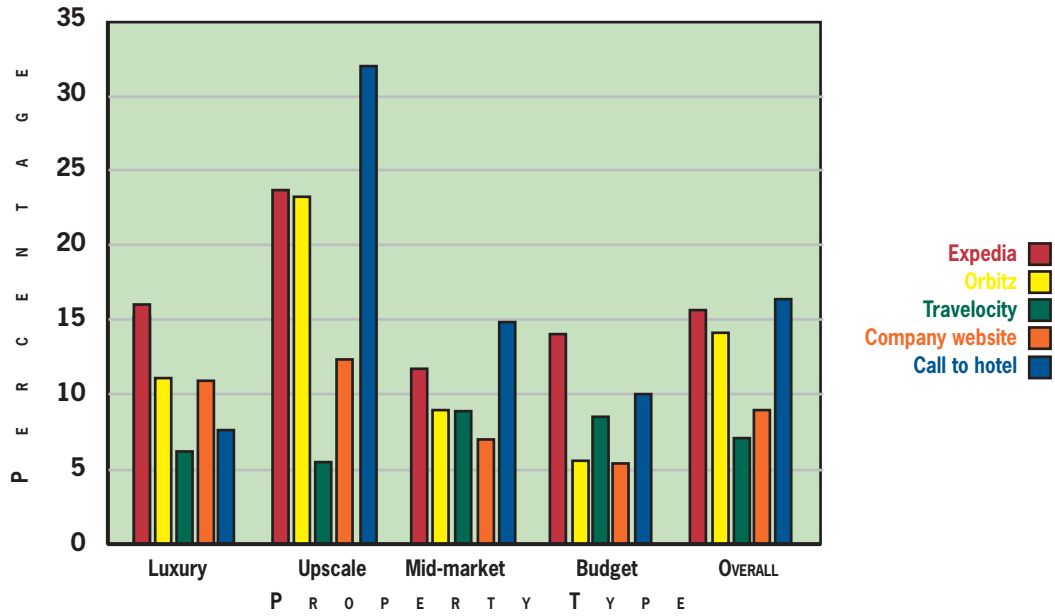
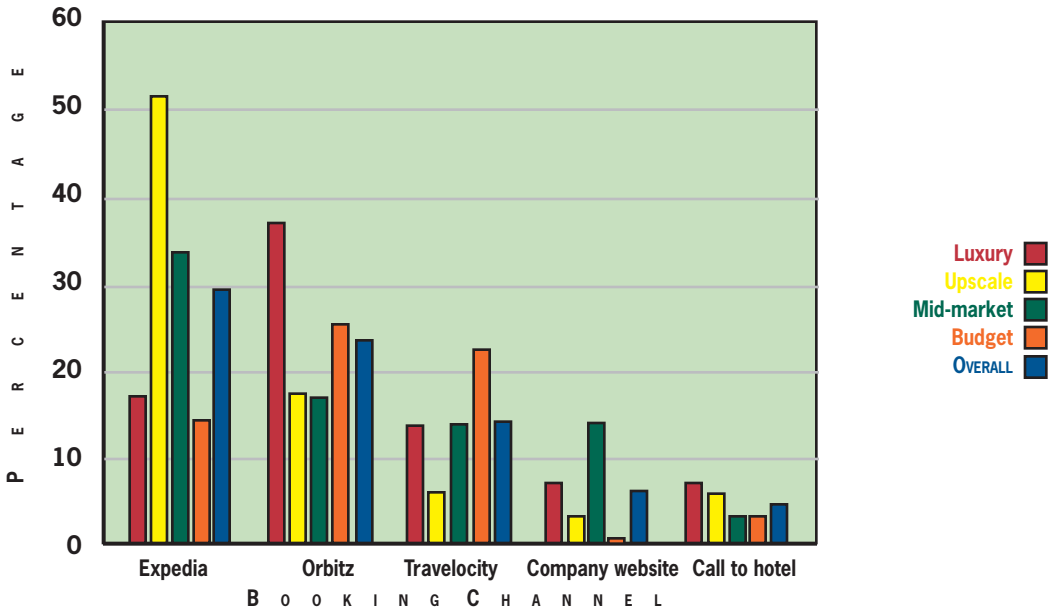


**EXHIBIT 8**

**For each booking channel, the percentage of time that channel reported a room as unavailable (or failed to list the property), by property type and overall**



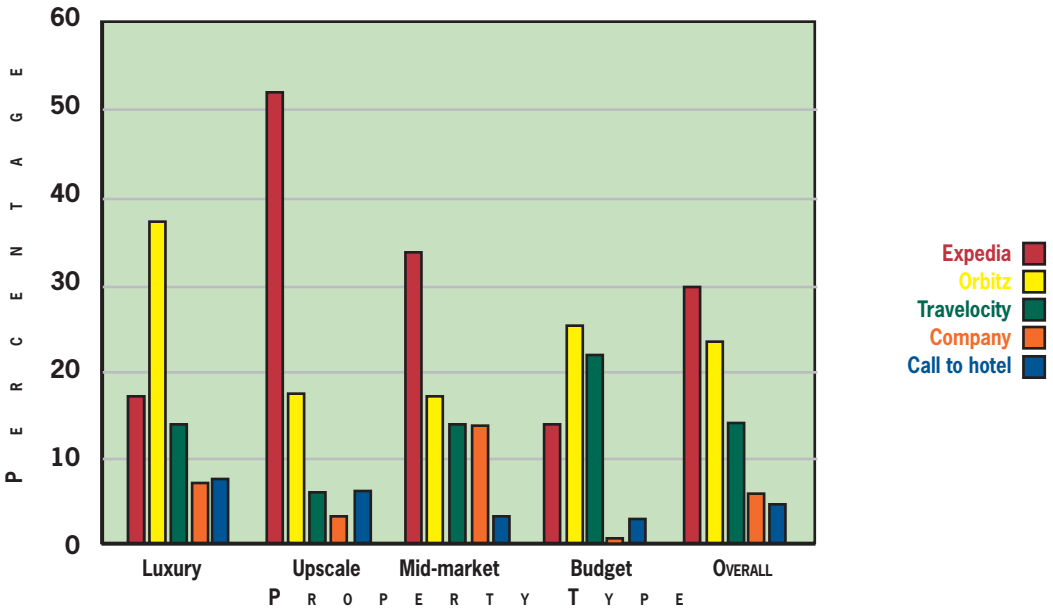

a property as being unavailable when, in fact, that is not the case. The percentage of time that each channel reported a room as being unavailable, by property type and overall, is displayed in Exhibit 8. We recorded a room as unavailable if the booking channel reported no available rooms for the property on the specified date or if the booking channel did not list the property. Across all segments, calling the hotel was the best way to find a room that was, in fact, available (calling the hotel turned up an available room 95.6 percent of the time), followed closely by the company's own website, which reported a room as being available 94.2 percent of the time. Expedia was the poorest performing channel on this measure, failing to list a property or reporting no available rooms 29.2 percent of the time (that is, in 40 of 137 cases). We note, however, that Expedia's ability to list a property is based solely on the contracts it wins. As such, the determination of whether a property is listed is a matter of Expedia's operational strategy, as described in a previous *CHR Report*.[4]

Once again we compared the booking channels for availability by each property type and overall. The result, shown in Exhibit 9, indicates the percentage of time that each booking channel reported no available rooms (or failed to list the property). In the luxury segment, the highest room availability was given by the company website and calling the hotel. For the upscale segment, the company website

[4] See: Carroll and Siguaw, *op. cit.*

**EXHIBIT 9**

**For each property type and overall, the percentage of time that each booking channel reported a room as unavailable (or failed to list the property)**




yielded the highest availability, closely followed by Travelocity and calling the hotel. Calling the hotel was best for availability in the mid-market segment, with no channel being a close second. Finally, for the budget segment, the company website had the highest room availability, followed closely by calling the hotel.

We can suggest two reasons that calling the hotel offered the best availability. First, the on-premises reservationist arguably has the most immediate information on room availability. Second, it may be that revenue managers have set modest overbooking targets for their reservationists. Both points are speculative at this time, as our data contain no way to ascertain why calling the hotel was so consistent in showing availability.

## Limitations of Our Study

We see five limitations of this study, the chief one being that our study is limited to only 137 properties, each on a single, randomly selected date. Increasing the number of properties and expanding the number of dates evaluated would increase our confidence in our findings. That said, however, we see no reason why our findings would be substantially different with a larger sample.

Second, owing in part to the small sample, the particular properties we selected are not representative of the market shares of particular flags. Certain flags are underrepresented and others are overrepresented in our sample. Even though we did not gain a sample with proportional representation, our sample broadly covered the industry, including prop-

erties from 35 different flags. Such broad coverage enhances our confidence in our findings, as compared to a sample with fewer flags.

Third, we were attempting to book a single night's stay for all properties. Our findings may well have been different with bookings for multiple-night stays. In general, we expect that the unavailability of rooms would be higher across all channels in the case of multiple-night stays, though we are hesitant to predict differences across channels.

***For hoteliers who want to encourage would-be guests to book on their own websites, low-price policies seem to be working, but not yet universally.***

Fourth, the electronic distribution of hotel rooms continues its rapid evolution. Our results were collected in the fall of 2004, but they may not have held even when we were writing this report in early 2005. To address this shortcoming, we intend to repeat the study later in 2005.

Finally, the way we conducted the study does not necessarily reflect the way consumers shop for rooms. Our focus here was on a particular property-date combination. While this is probably consistent with the behavior of consumers who belong to loyalty programs, it is likely different from the process followed by consumers who do not have an affinity for particular flags. Our experience suggests that consumers lacking flag affinities use third-party sites to scan the offerings available for a particular date (or date range), looking for the best available rate. These consumers may or may not follow up with visits to other third-party sites, company websites, or calls to the hotel.

## Implications

Our findings have important implications both for consumers of hotel rooms and for suppliers of hotel rooms. We discuss both below.

**Consumers of hotel rooms**. Although the CHR's chief purpose is to produce research reports for the hotel industry, this report shows that the best advice to would-be hotel guests is to shop around for room rates. For consumers whose time is limited, or who want a particular property, the logical place to start a room search is at the company's website. Consumers who have time to scan different channels, might instead start with the third-party sites (recalling, for instance, that Travelocity performed well in terms of rates and availability), then check the company's website, and finally call the hotel. Compared to using Travelocity, which was the single channel that offered the lowest excess booking cost, we estimate that consumers can save more than 5 percent by comparison shopping.

Another important finding for would-be guests is that unavailable does not always mean unavailable. We found that rooms showing as unavailable on one specific channel often were available on some other channel, notably, calling the hotel directly. Consumers who need a room at a particular property and don't mind paying a premium (or can't be bothered with comparison shopping) can simply call the hotel for a room or, if they don't like using the telephone they can start with the company's website.

As we see it, the discrepancies in rates and availability across channels is likely to spur the emergence of travel search engines (i.e., metasearch engines) that can find the best room rate across all channels. While these will undoubtedly be helpful, it is unlikely that they will incorporate the results of the "calling the hotel" channel and so consumers will still have to get on the telephone to ensure they are getting the best rate and availability information.

**Suppliers of hotel rooms**. For industry practitioners, the foremost implication involves the hotel chains' stated goal of driving would-be guests to their own websites with

low-rate guarantees. We found that low-rate policies, though they seem to be working in a general way (as demonstrated by the generally low-cost bookings available on the company websites), are still not being applied universally. For whatever reason, we found that Travelocity was the lowest-cost channel.

A second implication for the industry involves the discrepancy we found between the rates available on a company's website and those available by the calling the hotel (rates from calling the hotel were generally higher). Returning to our earlier point, even though operators might think that the higher rates are better for the hotel, eventually guests will figure out any consistent discrepancy. Rather than risk customers' ire, and in the interests of good service, reservationists might want to inform telephone customers that booking online via the company website may yield better rates.

The real lesson here is that room providers should seek to ensure consistent rates across all channels, especially those that are under their direct control. The benefit to the hotel from consistent rates is that consumers could spend less time in search mode and confidently book the hotel via any channel, while still being assured of the best rates. We believe that gaining such rational control of distribution will improve customer satisfaction while discouraging consumers from basing purchase decisions on price only. When prices are consistent, other value-added features come into play in the decision process. For example, the benefits of booking directly on a company's website, where loyalty rewards can be accumulated, become that much more appealing.

Finally, our findings suggest that hoteliers should choose room-distribution channels carefully. In part, the issue here is consumer education. For example, Do customers know to visit your own website if a room shows up as unavailable on a third-party site? If not, how well is that third-part channel serving your chain's needs? ■

***Do you have a response to or comment on this report?***

***The Center for Hospitality Research welcomes written commentaries of 1,000 to 3,000 words on this and other reports.***

***To participate in this on-line forum, contact Professor Gary Thompson, Executive Director, at gmt1@cornell.edu.***

Cornell University
School of Hotel Administration
The Center for Hospitality Research

# CHR Reports for the Hospitality Industry

TheCenterforHospitalityResearch.org

**Retaining Management Talent: What Hospitality Professionals Want from their Jobs, by Masako A. Taylor and Kate Walsh, Ph.D.**

**Making IT Matter: A Manager's Guide to Creating and Sustaining Competitive Advantage with Information Systems, by Gabriele Piccoli, Ph.D.**

**Why Discounting Doesn't Work: The Dynamics of Rising Occupancy and Falling Revenue among Competitors, by Cathy A. Enz, Ph.D., Linda Canina, Ph.D., and Mark Lomanno**

**Understanding Switchers and Stayers in the Lodging Industry, by Iselin Skogland and Judy Siguaw, D.B.A.**

---

**Also of interest:**

**Tools for the Hospitality Industry #4: MegaTips: Scientifically Tested Ways to Increase Your Tips, by Michael Lynn, Ph.D.**

**Tools for the Hospitality Industry #3: Safeguarding Service: Emergency Preparedness Essentials, by Robert J. Kwortnik, Ph.D.**