

The 'rogue' OTA channel is getting squeezed

Bedbanks: The lessons learned from Amoma's business behaviour and its insolvency

Geneva (December 20, 2019). About a year ago, wholesale hotel rates were leaking into the retail channel, due to the activities of non-contracted OTAs (see link below). Now, however, the tide seems to be turning, due to tightening up on the part of the bedbanks, the demise of one of the most notorious 'rogue' OTAs and an agreement between Expedia and Marriott to filter all wholesale rates. The lessons learned from Amoma's business behaviour and its insolvency.

Indeed, in order to fill rooms, hoteliers are often obliged to sell blocks of rooms to so-called 'aggregators' or 'bedbanks' with the understanding that this inventory is not to be sold on a retail basis, but to be combined in packages with other travel services like air flights or rental cars, typically offered by tour operators, OTAs or in offline markets, such as travel agencies.

While contracted OTAs have a formalised relationship with hotels and work together on a net merchant or commissionable model, such as Expedia or Booking.com, non-contracted OTAs have no contractual obligations to hotels and are therefore not remunerated by the hotels whose rooms they offer for sale. Rather they make their money on the spread between wholesale rates to which they have access and the prices they offer to the travelling public.

The bedbank business model is to redistribute wholesale rates to online travel agencies, wholesalers, traditional travel agencies, and tour operators, who then sell to consumers. While the travelling public may be generally unaware of bedbanks, they play a key role in hotel distribution. For example, Hotelbeds Group had a 5.2% and other wholesalers a 2% market share of total hotel reservation revenue in Europe in 2018, according to D-Edge Hospitality Solutions.

Hotelbeds has tightened up

Now, it appears that this 'illicit' distribution channel is increasingly under pressure. The bedbanks, such as the biggest one, Hotelbeds, which deals with some 180,000 hotels worldwide and sells about 50 million room nights annually, have been heavily criticised for allowing rooms sold to them on a wholesale basis to be re-distributed by OTAs on a retail basis. Hotelbeds provides hotels with access to complementary distribution channels that can increase occupancy rates and optimise RevPAR – while not competing with the hotelier's direct distribution strategy.

Hotelbeds offers hoteliers access to a network of over 60,000 B2B travel buyers, such as tour operators, retail travel agents, airline websites, and loyalty schemes in over 140 source markets worldwide. These



Hotelbeds Managing Director Carlos Muñoz distances himself from dubious partners. / Photo: Hotelbeds

channels provide its hotel partners with returning guests that generally book further in advance, cancel less often, spend more in-destination and stay longer, according to the company.

In late September, the Palma-based company announced that it had taken action against the abusive distribution of wholesale rates. For example, Hotelbeds stated that it had reduced Amoma, one of the worst offending rogue OTAs to about 1% percent of its sales. "Amoma is one key example of us making sure that we've been significantly reducing our business with clients that hoteliers consider not to be generating value," noted Managing Director Carlos Muñoz.

A year previous, Hotelbeds instituted a 'three strikes' policy, according to which, whenever a customer (e.g. an OTA) is caught putting inventory into the wrong channel three times, it stops sales to that customer, according to Muñoz. As a direct result, Hotelbeds blocked 800 sales channels of offending sellers and gave up some €300 million of otherwise profitable sales during the last year, resulting in a 90% reduction of reported incidences of abusive distribution of wholesale rates over the last six months to just 0.01% of room night production.

More broadly, Hotelbeds has also ramped up its support of hoteliers regarding their concern about managing online rate parity and the so-called leakage of non-contracted rooms, Muñoz noted, adding that Hotelbeds has built up "a full team" to track clients who distribute opaque rates in a consumer channel.



The black sheep among the bed banks no longer exists. / Logo: Amoma

"undercutting wholesalers worldwide" by volume. An example of an Amoma offering: a studio at a London hotel priced at £180 was being sold on Amoma for £120. The hotelier had sold this room through the offline wholesale market, but the OTA (in this case, Amoma) had purchased the room from the wholesaler and marked it up for retail customers.

Furthermore, if a customer had booked a studio at that rate, they might have shown up disappointed to find the hotel had assigned them to one of its smallest rooms. Also, the reservations could have surprised a front desk worker. In any case, proving that the hotel never intended to offer that room at that rate would have been impossible. If customers would have posted negative reviews of the hotel online, the hotelier would have been obliged to reply that it was unable to get Amoma to respond to queries.

Amoma has ceased operations

A clear sign that the wind has shifted with regard to the un-contracted OTA channel is the bankruptcy of Amoma, one of the OTAs most reviled by hoteliers for frequently undercutting their direct rates. On 14 September 2019, the shadowy Geneva-based OTA ceased trading and filed for bankruptcy. The defunct operator has posted a peevish message on its website, stating that:

"Since its creation, Amoma has always strived, with success, to find the best value for money for its customers. Entities that claim to act as 'price comparators' are, in effect, media agencies that redirect consumers to entities like ours against paying a cost per click [*This comment seems to refer to Trivago and Kayak, which are metasearch sites owned and operated by Expedia and Booking Holdings, respectively.*] These media agencies are

The impact of excluding Amoma

GTA, one of the brands Hotelbeds acquired in 2017, was generating over US\$75 million (€70 million) illicit bookings annually through Amoma at the time it was purchased. In March 2018, OTA Insight, a hotel distribution consultancy, cited Hotelbeds and its sister brand GTA and Tourico as the top-three largest

sometimes owned by companies operating in the same segment as ours, which has a negative impact on free competition. They are currently in a dominant position in the market and we think that this is to the detriment of the end consumers. Indeed, having taken the place that is theirs today, these entities unilaterally impose unsustainable financial conditions for us, because we work at the fair price to benefit our customers, not to benefit these media agencies. The result is a market concentration in which only a very small circle of major online travel agencies can survive."

While there is some truth to what Amoma is saying with regard to the consumer, it is also true that many hotels would not survive financially if they had to sell all their rooms at the wholesale rates to which Amoma had access.

Customers had to pay twice

What happened here is similar to the case of the abrupt cessation of activities of Thomas Cook, which left many customer 'high and dry'.

Indeed, an undetermined number of travellers, who had booked hotel rooms with Amoma just prior to the

bankruptcy for future dates, were left stranded when hotels stopped honouring reservations booked and paid for via the OTA. As an example, an acquaintance of the author of this article ended up paying double for his stay in an Istanbul hotel in October, after booking initially through Amoma.



With Booking.basic the OTA from Amsterdam introduced its own service for wholesale prices. / Photo: map

On 13 September, TrustPilot, a site collecting consumer feedback, reported a flood of complaints from users stating that hotels had denied their bookings due to payment problems. Amoma subsequently attempted to force Trustpilot to remove many of them for 'inappropriate content'. "Everyone knew this was going to happen," remarked Guilain Denisselle, editor of French trade publication *Tendance Hotellerie*, who added that, "The question was not will it happen but when. You can find hundreds of bad comments from consumers in forums on TripAdvisor." Otherwise, TripAdvisor stated on 13 September that, "We immediately removed Amoma from TripAdvisor's hotel listing offers as soon as we became aware of their financial trouble."

Amoma was a Google partner

Google's price-comparison search tends to favour agencies offering the lowest prices, even if they didn't bid the highest for Google's hotel price ads. Trivago and other metasearch sites also promoted Amoma using similar ad auctions. Thus, in 2016, Google made Amoma a partner for its instant-booking platform which meant that Google customers could buy rooms from the OTA without leaving its interface. This move in particular appears to have boosted Amoma's growth.

In 2017, Amoma claimed it handled bookings totalling US\$560 million (€500 million), mainly for hotels. "Amoma could exist partly because bedbanks granted them with the inventory at highly discounted rates, but mainly because metasearch allowed them to advertise even though they had been made aware of the risk," explained Denisselle, who added that, "Maybe it's the right time for metasearch to bring ethics to their business."

Booking.com effect

Booking.com, the world's leading accommodation booking platform, made a change that could have impacted Amoma and other operators in the non-contracted space. In 2018, Booking introduced its own wholesale rate service, Booking.basic, in a move designed to capture some of the discounted inventory. "We're seeing the largest OTAs start to work with wholesalers, leading to smaller OTAs which based their inventory on wholesalers finding themselves in competition with much bigger budgets, sophistication, and the same rates as they have," notes Dori Stein, CEO of Fornova, a hotel distribution consultancy.



**Gino Engels, OTA Insight:
It's a crowded market.**

/ Photo: OTA Insight

Most of the larger hotel chains and some of the smaller hotel groups have been restricting the supply of so-called 'static rates' (i.e. rates that don't change) that the likes of Amoma have depended on. "Hoteliers might breathe a sigh of relief at the news that an OTA known to be at the heart of many instances of disparity might no longer affect the integrity of their pricing," noted Gino Engels, Co-founder and Chief Commercial Officer of OTA Insight, who added that, "But plenty of other OTAs — some acquiring rooms via wholesaler on-selling — will be eager to take their place. Of course, there are many good actors in this space. But it's a crowded and volatile market."

Hotelbeds partners with RateGain

Last week, in a further move to control the unauthorised dissemination of wholesale rates, the giant bedbank announced a partnership with RateGain, a hotel revenue management and distribution consultancy.

Through the agreement, Hotelbeds will be provided with 'Parity+' – "an end-to-end rate integrity management solution that uses artificial intelligence (AI) to help its hotel partners to identify cases of opaque rates intended for offline channels being sold in other channels."

According to Apurva Chamaria, Chief Revenue Officer at RateGain, "Parity+ will provide Hotelbeds with an overall parity score, giving information on availability and rate violations by both property and meta-channels – as well as helping understand violation causes, all in an easy to navigate single view dashboard. Additionally, the 'On Demand Data Refresh' feature will assist Hotelbeds to be on top of issues across 500+ distribution channels and the 'Test Reservation Module' called 'Closed Loop Service' will uncover the rogue operator behind the leaked rates."

Marriott's Expedia deal

Indeed, the non-contracted OTA channel had already been squeezed from the supply side with the bedbanks tightening up and the bankruptcy of Amoma. Now the demand side is also being restricted, as the chains have begun to clamp down on franchisees, who are often the ones distributing wholesale inventory in a questionable way. In mid-September, almost simultaneously with the demise of Amoma, Marriott and Expedia announced an exclusive agreement to retake control of wholesale rates.

According to the agreement, Expedia Group has become the exclusive distributor of Marriott's wholesale and promotional room rates, availability and content to bedbanks, as well as other redistributors which don't have a direct relationship with the hotel chain. Starting on 15 October, the bigger bedbanks, such as abovementioned Hotelbeds, Australia's WebBeds, and Indonesia's MG Bedbank, are being directed by Marriott to deal directly with Expedia's business-to-business unit, Expedia Partner Solutions, if they wish to continue to access

Marriott's rates and availabilities from any of the chain's 7,000 properties located in 132 countries and territories.

The exclusive global agreement to create what the two parties are calling "a single gateway for the redistribution of Marriott's wholesale inventory" through "optimised distributor" Expedia does not affect tour operators, OTAs, travel management companies, global distribution systems, and airlines which maintain a direct relationship with Marriott. However, the effect of the agreement is no doubt being felt by a number of bedbanks, financial institutions, membership clubs, airlines, OTAs, metasearch platforms, wholesalers, and retail travel agents that don't have such direct ties with the chain.

Through this agreement, Marriott has rationalised the task of policing all the rogue rates and discounted rooms that unauthorised parties often advertise on platforms, such as Kayak, Trivago, TripAdvisor and Google. It also reduces the friction with guests, who book through these channels, arrive for a stay in a Marriott property, but discover that the rates, fees, amenities, and perks are not what they expected because they booked an 'unauthorised' wholesale rate.



Marriott filters the market for bed banks via Expedia. / Logo: Expedia

"All distribution partners and travel providers are required to comply with Marriott's channel standards," explains Alexander Pyhan, Marriott International's Vice President, Distribution, who adds that, "The optimised distribution solution through Expedia Partner Solutions will greatly increase the compliance with Marriott's channel standards."

The proliferation of wholesale rates and promotions created major inefficiencies and costs for Marriott. Also there was the risk of guests showing up at a Marriott hotel expecting to earn Bonvoy loyalty points, but finding out that they are ineligible because they booked a wholesale rate or promotion. According to Marriott, the property descriptions, amenities and fees, including the existence of resort fees, may also have been inaccurate or misleading when unauthorised resellers made them available in an uncontrolled manner.

Accessing the leisure market

Marriott, like most major international chains, serves essentially business travellers. However, the recent agreement on wholesale rates for bedbanks and tour operators that redistribute them to other businesses should bolster Marriott's visibility in the leisure travel market, according to Alexander Pyhan. Marriott's wholesale rate distribution to OTAs, such as Expedia's sites, Booking Holdings' Agoda, Booking.com & Priceline platforms, as well as Ctrip, are not directly impacted by the Marriott-Expedia agreement, according to Drew Pinto, Marriott's Senior Vice President of distribution and revenue strategy.

However, certain metasearch platforms, owned by the big OTAs, like the abovementioned Kayak and Trivago, could be deprived of some wholesale rates from companies that aren't supposed to make them available. / Macy Marvel