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Accor: Strengthening the Brand with Digital Marketing

Accor, a leading global hotel operator with a portfolio of 14 hospitality brands (including Sofitel, Novotel, and ibis) in 92 countries, prided itself on living up to its motto, "To open new frontiers in hospitality." In early 2015, Accor was indeed contemplating how to do just that, but not by tackling a new frontier of the geographic variety. Rather, the firm was further exploring the digital frontier via a new distribution channel that would allow it to better compete in the online market space for travel reservations. Room Key had been founded by a consortium of six major hotel brands in January 2012 with the objective of offering hotels and their guests an alternative to third-party booking services such as the major online travel agencies (OTAs). These equity owners sought to lower the cost of booking commissions paid to OTAs, such as Expedia, Priceline, and Booking.com. Customers could search for room options on the Roomkey.com portal and, when finding a suitable choice, be taken directly to the brand or property website to make their booking.

Unlike traditional OTAs that spent heavily on marketing to drive traffic to their sites, Room Key targeted travel shoppers who abandoned their search without booking a room. Via a pop-under ad that redirected them to the Room Key site, the company tried to reengage prospective customers as they were departing from the six founders' websites. Customers were offered the opportunity to conveniently search and shop hotel rooms from a curated list of trusted brands and then book a room directly with them. Accor faced two options: becoming an equity partner in Room Key, which required a large upfront investment likely to be in the range of €10 million, but provided the opportunity to share in Room Key's profits, or signing on as a commercial partner, which would require the company to pay Room Key a 15% commission on each booking than the 10% that equity partners paid. With the choice of either option, Accor would incur costs to develop new online infrastructure, to communicate with individual properties, and to change its marketing messages to consumers. Would the savings in fees that Room Key promised when compared with fees charged by OTAs cover these costs and generate additional revenue by attracting new customers to its hotels?

The Room Key opportunity needed to be assessed as part of Accor's larger digital distribution ecosystem that included the company's central corporate portal AccorHotels.com; its 14 individual branded websites, such as Novotel.com; its mobile applications; and its indirect online distribution agreements with OTAs. A new initiative, termed "Digital Hospitality," a five-year €225 million investment in technology, had been launched in late 2014 and was expected to bear fruit as early as 2015. It reflected the accelerated pace of technological change in the hospitality industry and in the lives of its consumers. In 2014, his first year at the helm, the company's chairman and CEO, Sébastien Bazin, a former private equity specialist, had firmly placed digital at the heart of his corporate strategy. Said Bazin, "In this industry, those who master digital will win. We see digital not as a threat but as a massive opportunity."[1] Digital Hospitality was a significant investment, and Accor's management team had big aspirations for it. If and how Room Key would fit with the new initiative was uncertain. Did Accor need Room Key or could it do digital itself? What would it take for Accor to master digital, and at which points in the customer's purchase journey could digital become a competitive advantage for the company?

Company History

Accor traced its origins to a single hotel, called Novotel, which was built in 1967 by Paul Dubrule and Gérard Pélisson in Lille Lesquin, France. They soon formed the Société d'investissement et d'exploitation hoteliers (SIEH) group and grew the company rapidly. By 1980, Dubrule and Pélisson had opened or acquired a wide spectrum of hotel brands participating in several market segments, from economy hotels (e.g., ibis) to luxury hotels (e.g., Sofitel). In 1983, with a portfolio of 400 hotels and 1,500 restaurants that employed over 35,000 people in 45 countries, the hoteliers formed Accor (see **Exhibit 1** for current financial data).

By 2014, Accor managed 14 global brands (see **Exhibit 2** for the brands), with 5 product offerings in the economy segment, 4 in the midscale segment, 4 in the upscale segment, and 3 in the luxury segment; Sofitel represented the pinnacle of the brand portfolio. These brands were distributed over six continents and lent their names to 3,717 hotels with 482,000 rooms.[2]

Beginning in 2010, Accor began a process of strategic reorganization, gradually changing its focus from owning hotel properties toward franchising and management contracts. This "asset-light" strategy revitalized Accor by freeing up capital and allowing it to focus on its strengths as an operator. Instead of making capital investments in hotel real estate, the company pivoted to investing in its brands and its management practices. The company was organized into two businesses. Hotel Invest was a real estate investment business that focused on owning and leasing hotel assets. Hotel Services was an operating business that specialized in running hotel operations for both Accor-owned and other-owned properties. The 3,717 properties managed by Accor's Hotel Services division generated €11.9 billion in gross revenue in 2014, up 3% versus the previous year. Accor earned €1.2 billion in net revenue from these sales, representing the amount the company earned in the form of management and franchising fees.[3]

Being asset-light did not mean shrinking Accor's market footprint; to the contrary, the company planned to expand aggressively by adopting a brand-centric strategy to define and develop each of its 14 brands. Even while divesting company-owned real estate, Accor opened 208 new hotels with 30,000 rooms in 2014 and had 156,000 new rooms in the pipeline, 84% of which were in emerging markets.[4]

A Changing Industry

The hospitality business wasn't getting any easier. Major brands were engaged in hand-to-hand combat for every room night, and an explosion of new hotel concepts was challenging legacy brands. Emerging competitors, such as Airbnb, were disrupting the industry by booking rooms in private residences. Initially a threat in the leisure travel segment, these new sharing-economy companies were gaining share among business travelers. OTAs continued to increase their share of hotel bookings and were having the effect of commoditizing the category by taking the focus away from brands and creating a sense among consumers that "a room is a room." Consumer-generated reviews on sites such as TripAdvisor counterbalanced this trend and provided consumers with valuable information about a hotel's quality. Expedia's pending acquisitions of competitors Orbitz and Travelocity would bring three of the top four OTAs together and consolidate its power.

Online sites, such as Hotel Tonight, were retraining consumers to wait until the last minute to book a room and were leading a race to the bottom on pricing. Meta-search sites, such as Trivago, scraped and aggregated hotel-booking data from 261 different sources to offer consumers a full menu of options to browse. Major online powerhouses were entering the industry. Google's investment in ITA, a provider of flight information, and licensing partnership with Room77, a hotel-booking software company, showed its increasing interest in the sector. Amazon Travel allowed customers to book hotel rooms via the U.S.'s largest Internet retailer, while Alibaba's Taobao Travel was booking airline and accommodation reservations on China's largest e-commerce site.

Nearly every touch point along a customer's purchase journey was under attack from new types of competitors (see **Exhibit 3** for the traditional customer journey and **Exhibit 4** for new entrants serving customers along their journey). "There are many new participants in the value chain and every one of them is trying to eat some of the cake," proclaimed Bazin. "Digital is probably the thing that will most determine tomorrow's winners and losers in our industry."[5] Vivek Badrinath, the digital CEO at Accor, continued:

> The first wave was the online travel agents and to a large extent they captured a big part of the value chain. . . . And then hoteliers didn't do much about the second wave— TripAdvisor and the metasearch engines. The third wave is coming and it's this Airbnb concept of a customer-to-customer type relationship with a platform in the middle. These are all disruptions of the business model, and that is accelerating.[6]

> [The hotel industry] is highly intensive in technology . . . but has been largely passive in this area. . . . New players have appeared over the years—online travel agents, comparison websites, meta search companies and also companies like Airbnb—and in all these cases the hotel companies have not been active in this transformation. We need to become actors of this digital growth.[7]

OTAs were both a blessing and a curse to hoteliers. Hotels provided the largest revenue stream for OTAs and thus were important partners. Explained Badrinath:

> We have a special and privileged relationship with the OTAs, with all hotels . . . benefiting from this partnership. They help us to tap into new customer bases in certain parts of the world where we do not have such a prominent presence. The cost of their services is quite high and we tend to use them for new customer acquisition, after which we then try to keep [customers] within the Accor ecosystem for subsequent bookings.[8]

> Online travel agencies have gained huge power because they have bought a lot of key words, they have invested in building a large catalogue, and they continue to spend a significant part of their revenue on key words. . . . They are very dynamic and are growing very fast. And they are an expensive channel so understanding and balancing what you have from an OTA to deliver on your own is a key challenge for our industry.[9]

At present, 35% of Accor's sales were generated online. Of this, the company maintained a nearly 60/40 relationship between direct (obtained via its own websites and earned through its digital efforts) and indirect bookings (those obtained via partnerships with OTAs).[10] The company attempted to use OTAs strategically as new customer acquisition engines. It abhorred having to pay OTAs commissions on existing Accor customers who were booking new stays at Accor hotels on sites like Expedia or Travelocity. "It's that balance we're trying to achieve, rather than [working in] opposition with the OTAs," Badrinath explained.[11] As such, the company was increasing its efforts to sign up customers for its loyalty program, Le Club Accorhotels, which currently had 18 million members, 4 million of whom joined in 2014. Only 24% of loyalty program participants booked directly through Accor, which Bazin saw as a huge opportunity to tip the balance of direct to indirect sales further in favor of the company.[12] When participants booked through a third party such as an OTA, they did not earn loyalty points that earned them room upgrades and complimentary services during their stay, so booking direct improved the value proposition for consumers. Explained Badrinath:

> What we're really trying to do is make sure [loyal customers] think of us first. And that works—it's not just a pipe dream. Our loyal customers largely book direct because they would rather benefit from the advantages that come with being a loyal customer. . . . It's more important to us that our loyal customers have that reflex [to book direct]. The OTAs are bringing us the first-timers, and it's our job to make sure that those first-timers get to like our brand and . . . become loyal customers.[13]

"Absolutely I still believe OTAs eat too much," said Bazin, "but Accor is growing and is in a position to recalculate the value we can provide against that of the OTAs."[14] He continued, "OTAs are a great innovation, but if you are big enough, and Accor is, you have to control your destinations."[15]

Accor's Digital Hospitality Program

Part of the way Accor controlled its own bookings was through its owned digital footprint that attracted customers directly to the company. The company acknowledged a sea change in customer relations brought about by the digital revolution, which was changing how industry players related to one another as well as how consumers engaged with hotels. The use of branded websites and mobile applications enabled hotel brands to create direct, long-lasting ties with their guests. Accor was investing heavily in its electronic assets to cement a digital presence that worked to connect with customers in a meaningful way.

In 2014, the company reported that €2.1 billion of its total revenue was derived from bookings made on Accor's own websites.[16] One booking was made every two seconds on an Accor website. The company drove traffic to its websites by purchasing 12 million keywords and paid search ads. It also sent 570 million targeted e-mails each year and managed a Facebook presence that garnered 310,000 fans. Online bookings accounted for 35% of total sales in 2014, driven by 200 million unique visitors to the AccorHotel.com central portal and the websites of its brands, and the company hoped to increase that percentage to 50%.[17] "This [growth] will be driven not only by the general trend

towards digitalization in the market, but also by our investment in our own state of the art tools, in particular our multi-brand portal AccorHotels.com," proclaimed Badrinath.[18] He continued:

> Since Sébastien Bazin took leadership as the CEO of the company last year, one of the major areas he felt Accor needed to focus on was digital, particularly due to the impact this has on distribution. Digital was largely seen defensively, as an issue to deal with the rise of online travel agents and the changing patterns of customer behaviour. But we felt it was more than that. . . . We start with the idea that digital is here to stay; it has a lot of impact on our customers' lives. It has an impact on the way they behave, the way they interact, the way they make decisions, and it changes their behaviour.[19]

> Today's world has become increasingly digital, which has a massive effect on how customers behave. In particular, they are better connected and better informed, with the explosion in information available over digital channels giving them access to a wider variety of options. Switching between brands is now also easier than ever, because they can get a feel of a brand just by surfing the web. Lastly, they place a lot of trust in other peoples' opinions, in particular their personal and professional networks, a process that has been simplified by the growth in social networks. These behaviors have had a huge impact on how customers interact with and book hotels, prompting us to relook at how we manage every stage of the customer journey — from dreaming and selecting the ideal property through the pre-stay and stay, and ultimately how we facilitate post-stay interactions. Our objective is to rethink the way in which we work with the customer and incorporate digital technology where appropriate to give them a better experience where ever possible.[20]

Accor's Digital Hospitality program attempted to have an impact on the customer experience beginning with booking, continuing during the physical stay, and enduring after the stay. Accor wanted to offer guests "greater simplicity, fluidity and recognition at every stage of the customer experience." Explained Badrinath:

> Technology enables you to have an easier and better travel experience. So fundamentally it's about improving the customer experience in such a way that we are able to be with them throughout their journey and hence to be able to target them with advertisements, promotions, and information that will help them plan their next trip.[21]

> What is important is the customer knowledge and the loyalty programme and the way you digitise that to make those customers have the best experience possible. Our aspiration is really that people think of themselves as loyal Accor customers, so first they check the app to see if a destination has a property that they like and that is their first choice. And that's what the battle is about — that we are the first choice; that customers are tempted to choose Accor first.[22]

Digital Hospitality included both customer-focused and employee-focused elements. The customer-focused programs were directed to improve customers' knowledge of the company and its brands, the welcome that they were given when they interacted with the company, and the services provided to them both online and offline. Managers hoped that these initiatives would help the company better manage its relationships with customers and lead to loyalty gains.

Mobile First   The 2014 acquisition of French start-up Wipolo, creator of a mobile traveling companion application, jumpstarted Accor's mobile activities. Accor's Mobile First solution delivered robust mobile device functionality, the outcome of a strategic investment in mobile that anticipated it

becoming the primary customer-booking and communication channel. A single mobile application handled all of the tasks related to the customer's journey, making mobile the customer's primary channel of contact with the company. Mobile was a key component of Accor's strategy, as it accounted for 12% of the company's current web sales, a number that was rapidly increasing. "The app opens up the possibility of deepening our relationship with the customer. In contrast to just providing booking services, an app can act as a comprehensive companion for the customer—before, during and after their stay—allowing them to browse and dream about our properties; to book efficiently; enjoy digital services within the hotel; as well as give meaningful feedback and manage their loyalty programme," said Badrinath.[23]

Customer centric   This initiative included efforts to strengthen Accor's customer relationship management processes. All customer data, previously scattered across multiple databases, was centralized into a single platform, termed "Voice of the Guests," that could be mined and appropriated by employees to enable the delivery of personalized interactions and services. The company employed an in-house recommendation engine dubbed SMART that allowed it to automatically generate personalized messaging and customized offers to customers based on their profile, visit history, consumption habits, and click streams on Accor websites. This was a huge improvement, explained Badrinath:

> Our *Voice of the Guests* initiative will aggregate all the flows from guest satisfaction surveys, online reputation and user review sites which will allow our properties to get a comprehensive view of what customers think about their experience in their hotel.[24]

> It's a big CRM investment—we have 40 million customers in our database, and a huge wealth of information, which today we don't harness completely. That's why I say it goes beyond booking. Distribution uses this information for bookings, for reservations, but there's much more to the customers' tastes than just booking a hotel room. So having information about their stays and the opinions that they gave when they visited the hotel is a big issue and one that we need to develop.[25]

Seamless journey   This component was designed to enhance customer convenience at every touch point by streamlining the customer's experience with electronic payment solutions, one-click booking, online check-in and checkout, offers targeted to guest preferences, and communication after the stay to encourage social networking. "Welcome by le Club Accorhotels is a broad ranging program, starting with online check-in and ending with a fast checkout for participants. Its purpose is to remove paperwork, reduce formalities, and make sure that the customer gets a personalized welcome. . . . Customer reactions so far have been very enthusiastic as 93% of guests who have tried the welcome service want to use it again," said Badrinath.[26]

The employee- and partner-focused solutions included a dynamic pricing and revenue management system, tablet and smartphone apps that simplified employees' duties and enabled them to share best practices with others, and business intelligence and analytics that provided easy access to and analysis of the large volumes of customer and operating data that the parent company collected each day across its brands. Badrinath explained:

> We have decided to act on all of the levers that make up the Accor experience. All our stakeholders—customers, employees, and partners—will benefit from this wide-reaching digital transformation, which is built around migration to mobile devices, a more personalized service and a seamless customer journey.[27]

The key difference between our current plan and previous actions is that *Digital Hospitality* puts digital transformation at the center of the organization and acts as a philosophy that guides everything we do. What is truly innovative is that it takes into account all our stakeholders . . . giving a real 360-degree vision that balances our actions to insure a win-win for all concerned.[28]

Bazin continued:

Accor is transforming on a strategic, digital and managerial level. The plan addresses the full range of digital challenges and aims to make Accor the leader of a fast-changing industry. Accor is the leading hotel operator worldwide, backed by strong resources and unparalleled expertise. Combining these assets with our new digital ambition will allow us to expand our operational excellence through the entire industry value chain, better anticipate customers' expectations, and bolster our leadership over the long term.[29]

Thus, one factor in the decision whether or not to add Room Key to Accor's distribution portfolio was whether signing on would enhance or detract from Accor's own online presence.

The Room Key Opportunity

Like many e-commerce businesses, Room Key's initial challenge was gaining visibility in an overcrowded, online travel marketplace. Most online travel companies drove traffic to their sites using a combination of brand recognition—built through traditional outbound marketing programs including television advertising—and search engine marketing (SEM). In 2014, $624.7 million was spent in the U.S. by online travel businesses on national television advertising; Trivago and Expedia both spent over $100 million to build their brands, while Hotwire spent $92 million and Hotels.com spent $50.2 million.[30] After several years of this heavy investment in advertising, most OTAs benefited from high consumer brand awareness (see **Exhibit 5** for various brand measures), which drove organic traffic to their websites. They supplemented this with extremely high spending on SEM; Priceline's global search ad budget with Google was estimated to be $1.14 billion in 2012, which generated further traffic.[31]

As a new company, however, Room Key's brand was unknown to consumers, and the organization lacked both the expertise and budget needed to be able to compete effectively against the major OTAs in outbound marketing. Seeking to overcome this challenge, the company decided to focus on acquiring website visitors via exit traffic from the six founders' websites, targeting shoppers who abandoned their search without booking. When visitors to member brands' websites exited without purchasing—reportedly some 95% of visitors—a pop-under ad for Room Key appeared on their screens, offering a range of similar hotels in the same travel destination, curated from the Room Key brand partner portfolio (see **Exhibit 6** for an example of a pop-under ad). From there, customers could click on an offer to link directly to a brand-specific website to book a room. Thus, Room Key was designed to intercept customers leaving an individual hotel brand's website and reroute them to a curated list of hotel rooms from all of the Room Key partners, thus keeping consumers in a closed loop system. CEO John F. Davis III explained that Room Key's business model was built around offering branded hotels "one last shot to convince the consumer" before they defected to a nonpartnering competitor or to an OTA.[32] Fifty-four percent of prospective travelers visited three or more different websites as they browsed options and compared prices, while another 25% visited two.[33] Keeping these prospects shopping within the partners' networks could yield big benefits.

Partners offered 10% of their exit traffic to Room Key, which reportedly brought 10 million potential travelers to the Room Key website during its debut year.[34] Best Western International signed on as the first commercial partner, and was soon joined by La Quinta Inns & Suites, Millennium Hotels & Resorts, and Leading Hotels of the World, increasing Room Key's inventory of properties to 50,000 (see **Exhibit 7** for comparison of Room Key's inventory to that of the OTAs). Commercial partners had no equity stake in Room Key, so unlike the individual properties of the equity partners, which were automatically enrolled and would have to opt out to avoid using Room Key's booking service, each individual property in the commercial partners' portfolio had to opt in to receive the benefits of Room Key, making implementation much more unwieldy. Commercial partners paid a higher commission rate on Room Key bookings, more than the 10% paid by equity partners, but substantially less than the 25% typically paid to OTAs. Becoming an equity partner was expensive, so at the end of the day, it came down to a decision based on return on investment. Each hotel chain partner was unique in how it performed on various operational and financial metrics (see **Exhibit 8** for a comparison of partner hotels' performance), so each would vary in how it assessed how much joining Room Key would contribute to its success.

Partners expressed confidence in Room Key's potential for driving their businesses. Increasing direct bookings was a major objective, as indirect bookings were gaining market share each year, costing the industry an estimated $4 billion by 2014 (see **Exhibit 9** for OTA penetration statistics).

Lincoln Merrihew of the research firm Compete noted:

> Room Key's role in distribution is still evolving. Today, it's more of a backstop for the founders in an effort to keep bookings within the family—in other words minimizing lost business. That's important and has huge financial upside. The value of lost bookings to the hotel industry can reach into the billions of dollars, so it's a big challenge. In the future, to the extent Room Key can build its own presence and brand equity, it may become a destination in and of itself (much as many OTAs are today). If that happens, there is a high likelihood of bringing incremental traffic and bookings to its founders.[35]

But some industry analysts doubted Room Key's longer-term viability. Said *Hotel Analyst*:

> More and more people are asking if this latest initiative to combat the power of the OTAs is the biggest mistake the major hotel companies have made in a long time. To gain traction, Room Key has to overcome several challenges, most of which individually seem impossible and which collectively are insurmountable.[36]

The greatest challenge to Room Key's ability to deliver value to hotel brands was establishing itself as a brand in the overcrowded online travel marketplace. This would be extremely difficult, given Room Key's intention to spend little on conventional outbound marketing tools, such as SEM and mass media advertising.

Thus, Room Key's visibility in the online marketplace depended almost entirely on being seen by transient brand-website visitors who were about to exit the hotel branded sites without purchasing. This raised the question of whether the strategy of using pop-under ads would attract enough visitors.

Other analysts questioned the effectiveness of the exit-traffic strategy, not only as a means of finding customers, but also as being able to deliver a positive customer experience. Even though pop-under ads did not block the content a person was currently viewing, as the more intrusive pop-up

ads that loaded on top of viewable content did, there was a risk that some customers would feel similarly about pop-under ads as they did about pop-ups. Were pop-under ads enough to grab consumers' attention and get them to click?

When Room Key dropped its beta tag in May 2012, it added customer reviews, primarily pulled from TripAdvisor, to its website. It also announced a partnership with the OTA Travelocity and its Res99 network, which added an additional 100,000 hotels (from outside the Room Key partner network) to Room Key's inventory. Booking through Travelocity on Room Key was effectively invisible to a customer. The only differentiation between links provided to partners' properties and those back to Travelocity was that partner bookings were signified by a button marked "Book Direct" and accompanied by a hotel brand logo, while bookings through Travelocity were signified by a button marked "Book." If Room Key customers booked through Travelocity, they lost all of the benefits of booking direct.

Room Key's Customer Value Proposition

Room Key featured a simple, easy-to-navigate booking experience with all the benefits of direct booking. From the customers' perspective, Room Key felt like an OTA-like marketplace, but the fact that it was partially owned by the hotel brands gave it some important advantages. Booking direct opened up a host of opportunities for customers that were not available to them when they used OTAs—guaranteeing them the lowest rates, helping them avoid hidden fees and/or change penalties, allowing them to earn hotel reward program points and to request a specific room, and providing them with the information and higher-quality brand experience of shopping on a hotel-owned website. It also offered users flexibility when they had to change a reservation.

There was some evidence that Room Key did save customers money. Dennis Schaal of *USA Today* reported:

> In trying Room Key, I found instances when it offered a different room type or lower rates at specific properties of its founding hotels than were available on sites such as Expedia. For example, you could book a studio with two queen beds and a sofa bed at the Residence Inn City Center in Philadelphia via Room Key at a $269 room rate. The lowest rates there on Expedia and Orbitz were $279 for a different type of room.[37]

At Accor, questions were raised about how the Room Key customer experience aligned with the company's own goal to deliver a high-quality emotional experience at all touch points. But Davis felt confident that Room Key could deliver a superior customer experience: "Consumers weren't getting the type of product they deserved to book a hotel room. It's a personal purchase; you're spending a night with these companies. What could we do to make consumers happier?"[38] He posited that customers benefited not only from attractive room rates and the opportunity to earn loyalty points, but also from a better booking experience that was more seamlessly integrated into the experience of engaging with the hotel itself. After all, when customers clicked on the "Book Direct" button on Room Key's website, they were sent directly to the affiliated hotel's branded website. Sickel of InterContinental Hotels Group said:

> The fact is customers like to shop. They go to four or five sites before booking, but at the same time, customers tell us they like the confidence of booking with the brand website. This is about providing customers choices and delivering a great user experience without the clutter you might see on a third-party distributor.[39]

Did Room Key Fit with Accor's Digital Strategy?

Before making a decision on whether to partner with or become a commercial customer of Room Key, Accor had to consider the extent to which Room Key was succeeding in delivering value to its member brands. A report issued by Compete showed rapid growth during its launch period. Compete characterized its growth as "remarkable," noting that by July 2012, Room Key had more than 4 million unique visitors (see **Exhibit 10** for Room Key growth). The site was delivering traffic back to its equity partners' websites (see **Exhibit 11** for Room Key user traffic). By September 2012, Room Key's traffic volume had increased to more than 14 million unique visitors per month.

Davis expressed considerable satisfaction with the site's progress and expanding inventory:

> With Room Key monthly visits reaching over 14 million in 8 months, it's clear that the tailored hotel shopping experience Room Key delivers is one that travelers are seeking today. With the latest addition of three outstanding . . . direct connect partners, we are making great strides toward our mission to enable travelers to efficiently select and confidently book directly with the right hotel.[40]

In the beta period, Compete noted that Room Key functioned with a largely closed loop:

> It also meant that approximately 90% of Room Key traffic came from the founding brands' sites. On average, less than 2% of Room Key visitors come from paid or natural search. Room Key sends about the same amount back to the partners' sites (i.e., when a Room Key shopper clicks on booking buttons). Consumers that did not return to a partner site most often returned to a traditional search engine.[41]

However, things changed once Room Key partnered with Travelocity. While the Travelocity partnership offered consumers more choice, improving the value Room Key provided to travelers, as hotel rooms from outside the Room Key partner network were offered, the closed loop suddenly opened, decreasing the value Room Key provided to hoteliers. During the first month, Travelocity's Res99 network benefited from the diversion of 7.4% of the traffic derived from Room Key's partners' exit volume, a number that increased to 11.4% in June (see **Exhibit 12** for Room Key transfers).

This troubling trend indicated that Room Key was not content to keep bookings entirely within its equity and commercial partnership family. In spite of Room Key's growing success, the equity partners were losing bookings to OTAs at an increasing rate over the first half of 2012, a figure that had grown to 24% by July from 17% in January (see **Exhibit 13** for founding partners' lost bookings).

The key component of the Room Key value proposition for hoteliers was the lower commission fees charged relative to the fees charged by OTAs. While the latter charged a commission markup in the range of 25%, Room Key charged its equity partners 10% and commercial partners slightly more. However, the renegotiation of OTA contracts at the end of 2012 threatened to undermine this value. In order to have sufficient product inventory to show their customers, OTAs needed access to hotel rooms. However, with growing direct online sales, hotels, particularly the major chains, had become less dependent on OTAs and thus were willing to hold back inventory and push harder in contract negotiations. As John Burns of Hospitality Technology Consulting stated, "Hoteliers have begun to rein in outlandish commissions and conditions in their contracts with OTAs. Most brand agreements are seeing commissions below 15%, marking significant reductions from the past years, where commissions have hovered near 25%."[42]

This meant that there would potentially no longer be a significant difference between the commissions charged by the major OTAs and Room Key, particularly for Room Key's commercial partners. Still, in response to a question from a skeptical analyst, Davis replied:

> Room Key's business model was built on the concept of exit traffic, and for a business that is still quite new . . . the scale of this exposure exceeds our initial expectations. The introduction, branded by the referring company, to this highly qualified audience—100% of the views are by customers who are actively in the market for a hotel room and whom we know are predisposed to book directly on a hotel's site— makes this not only a large but also a highly engaged audience. As a result our conversion rates are very much in line with the objectives we set . . . and are meeting shareholder expectations, bringing millions of visitors a month into the Roomkey.com experience.[43]

Who should Accor believe? Room Key's CEO Davis, whose vision and persistence seemed to be turning Room Key into a success story? Or the more pessimistic analysts who questioned Room Key's staying power in the market? One analyst was particularly skeptical:

> At first glance, it seems that the hotel chains have got it majorly wrong this time. Wrong concept, wrong consumer proposition, wrong business model, and wrong timing. With each of the founding partners rumored to have contributed $15 million just to launch the project, this is an expensive mistake that will divert resources from where they are really needed—the companies' brand.com web sites—and leave the very people it is supposed to challenge—the OTAs—laughing all the way to the bank.[44]

Despite the strides that Accor had already made in digital, more work remained to be done. Said Bazin:

> The digital revolution has given customer technologies and tools that make them more expert and better informed, and which offer them prompt access to an increasingly wide choice. They are looking for new, different, personalized, and emotional experiences. So we constantly need to reinvent ourselves to meet these expectations, attract new customers, surprise our guests, and foster their loyalty. These developments are also prompting us to position ourselves, to be more flexible and bolder, in the face of the growing power of actors such as online agencies, search engines, and alternative accommodation solutions.[45]

Exhibit 1   Selected Accor Financial Data

| (in € millions)	2010	2011	2012	2013	2014
Gross Revenue (Hotel Services)	9,810[a]	10,602[a]	11,095[a]	11,600	11,900
Net Revenue (Hotel Services)				1,254	1,248
EBITDAR	1,814	1,923	1,788	1,731	1,772
Operating Profit	334	438	468	442	578
Net Income, Group Share	3,600	27	(599)	126	223
Total Non-Current Financial Assets	480	549	632	502	586
Total Non-Current Assets	5,555	5,038	4,479	4,088	4,795
Total Current Assets	2,310	2,576	2,925	2,911	3,613
Funds from Operations	864	728	786	717	767
Capital Employed	8,123	7,734	6,355	6,314	6,633
Net Debt-to-Equity Ratio	18%	6%	14.1%	8.4%	4.1%
Return on Capital Employed	9.6%	12.3%	14%	14.0%	14.6%
Weighted Average Cost of Capital	8.7%	9.12%	8.9%	8.80%	8.57%

Source: Compiled by casewriters from Accor, 2010–2014 Annual Reports, http://www.accor.com/en/finance/ financial-library/regulated-information/annual-financial-report.html, accessed 04/29/2015.

[a] Gross revenue from management and franchise operations.

Exhibit 2   Accor's Brand Portfolio
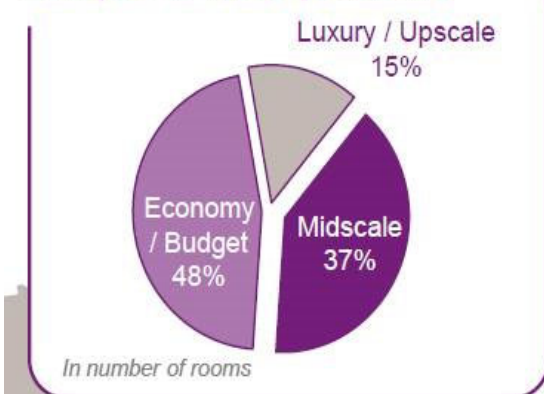
Exhibit 3   The Customer Journey

Source: Accor, Annual Report Presentation, 2014, http://www.accor.com/fileadmin/user_upload/Contenus_Accor/ Finance/PDF/2015/UK/20150218_presentation_annual_results_2014.pdf, accessed 04/29/2015.

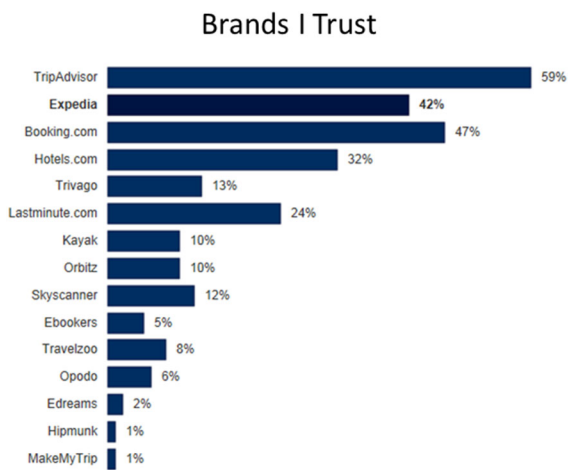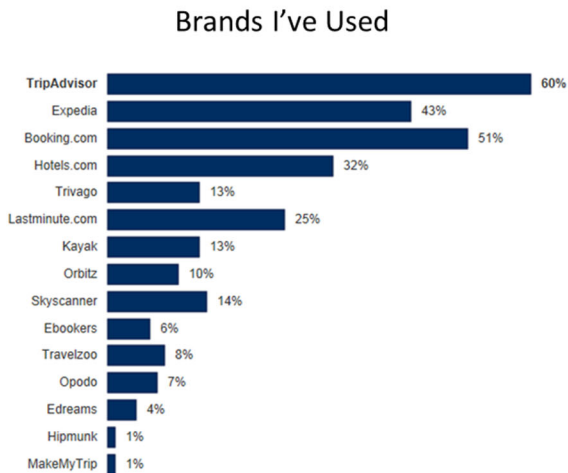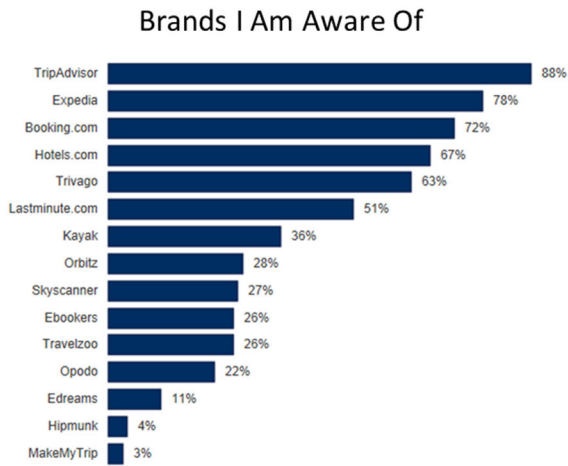**Exhibit 4**   New Entrants Serving Customers in the Customer Journey

Source: Accor, Annual Report Presentation, 2014, http://www.accor.com/fileadmin/user_upload/Contenus_Accor/ Finance/PDF/2015/UK/20150218_presentation_annual_results_2014.pdf, accessed 04/29/2015.

Exhibit 5   Online Travel Providers' Brand Health Measures

Brands I Am Aware Of

Brand	Percentage
TripAdvisor	88%
Expedia	78%
Booking.com	72%
Hotels.com	67%
Trivago	63%
Lastminute.com	51%
Kayak	36%
Orbitz	28%
Skyscanner	27%
Ebookers	26%
Travelzoo	26%
Opodo	22%
Edreams	11%
Hipmunk	4%
MakeMyTrip	3%

Brands I've Used

Brand	Percentage
TripAdvisor	60%
Expedia	43%
Booking.com	51%
Hotels.com	32%
Trivago	13%
Lastminute.com	25%
Kayak	13%
Orbitz	10%
Skyscanner	14%
Ebookers	6%
Travelzoo	8%
Opodo	7%
Edreams	4%
Hipmunk	1%
MakeMyTrip	1%

Brands I Trust

Brand	Percentage
TripAdvisor	59%
Expedia	42%
Booking.com	47%
Hotels.com	32%
Trivago	13%
Lastminute.com	24%
Kayak	10%
Orbitz	10%
Skyscanner	12%
Ebookers	5%
Travelzoo	8%
Opodo	6%
Edreams	2%
Hipmunk	1%
MakeMyTrip	1%

Source: Compiled by casewriters from "TripAdvisor tops Travel Brand Awareness Index," LJ Research, October 29, 2014, http://www.ljresearch.co.uk/tripadvisor-tops-travel-brand-awareness-index/, accessed 04/29/2015.

Exhibit 6 Room Key Pop-under Ad
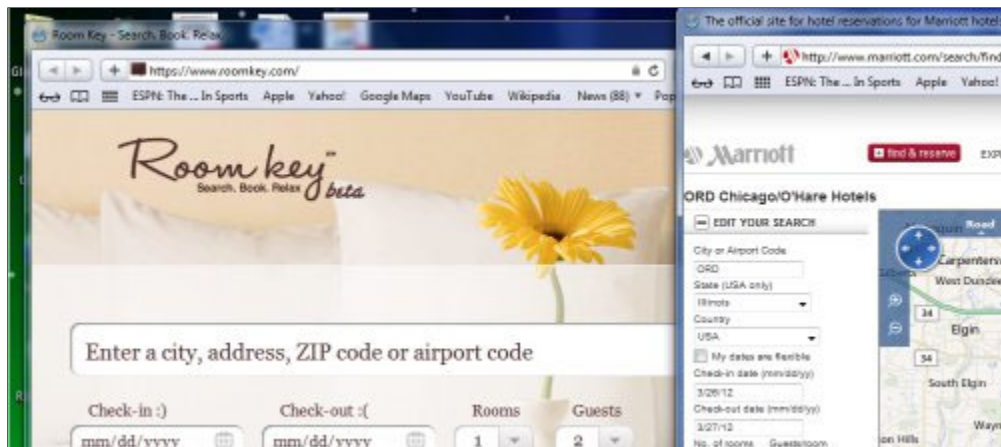
Source: Dennis Schaal, "Room Key pop-under ads and hidden metasearch strategy catapult unique visitor numbers," tnooz, March 16, 2012, http://www.tnooz.com/article/room-key-pop-under-ads-and-hidden-metasearch-strategy-catapult-unique-visitor-numbers/#sthash.304Y9ALL.dpuf, accessed 04/28/2015.

Exhibit 7   Room Key versus the OTAs: A Comparison

Company	Number of Hotels	2014 Gross Bookings	Unique Monthly Visitors (estimated Jan 2015)
Expedia	435,000	$50,446,800,000	93,800,000
Priceline/Booking.com	600,000	$50,300,000,000	234,500,000
Orbitz	100,000	$9,993,989,000	13,900,000
Ctrip	32,000	$1,223,000,000	28,000,000
Room Key	75,000		

Source: Compiled by casewriters from data contained in individual companies' annual reports and/or websites. Web traffic statistics based on Similarweb.com.

Exhibit 8   Room Key Partner Hotels' Relative Performance (as compared to Accor)

Company	Number of Hotels	Number of Rooms	Average Occupancy	ADR (in U.S. $)
Accor	3,717	482,000	69.8%	$97.24
Choice	6,300	500,000	59.5%	$77.03
Hilton	4,322	721,000	74.6%	$140.52
Hyatt	555	155,265	73.7%	$180.40
IHG	4,840	710,000	69.1%	$115.96
Marriott	4,100	710,000	71.6%	$157.05
Wyndham	7,500	667,000	61.8%	$115.17

Source: Compiled by casewriters from 2014 data available in each company's annual report, investor presentations, and/or earnings releases.

Note: ADR is "average daily rate," a metric used to measure the average room rental income the company receives per paid occupied room over a given time period.
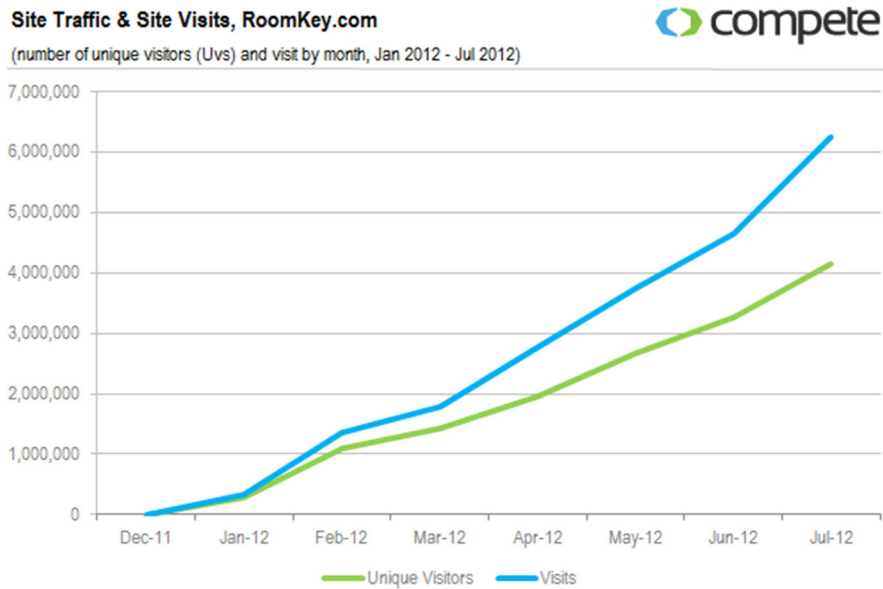
Exhibit 9   Hotel Online Penetration Statistics

	2010	2011	2012	2013	2014
U.S.					
Hotel Brand.com penetration	17%	17%	18%	18%	19%
OTA penetration	14%	14%	15%	16%	17%
Total online penetration	31%	31%	33%	35%	36%
Europe					
Hotel Brand.com penetration	7%	8%	9%	9%	9%
OTA penetration	14%	18%	20%	22%	23%
Total online penetration	21%	26%	29%	31%	32%

Source: Compiled by casewriters from data obtained from PhoCusWright International.

Note: Online penetration measures the percentage of revenues obtained from all online channels.

Exhibit 10   Room Key Growth in Its Launch Year

Site Traffic & Site Visits, RoomKey.com

(number of unique visitors (Uvs) and visit by month, Jan 2012 - Jul 2012)

Source: Steve Solinsky, "The Curious Identity of RoomKey.com," Compete, September 18, 2012, https://blog.compete.com/2012/09/18/the-curious-identity-of-roomkey-com/, accessed 04/29/2015.

Exhibit 11   Room Key's Inbound and Outbound User Traffic

Upstream Sites
Which sites did users visit immediately preceding roomkey.com?

% of Unique Visits		Upstream Site
22.17%		hilton.com
19.59%		marriott.com
14.49%		hyatt.com
5.98%		smart.com.au
3.77%		choicehotels.com
2.85%		google.com
2.67%		comfortinn.com
2.45%		daysinn.com
1.83%		super8.com
1.54%		ramada.com

Downstream Sites
Where do visitors go after leaving roomkey.com?

| % of Unique Visits		Downstream Site
21.88%		hilton.com
17.27%		marriott.com
13.37%		hyatt.com
5.72%		smart.com.au
4.58%		choicehotels.com
4.17%		google.com
2.38%		daysinn.com
2.07%		comfortinn.com
1.84%		super8.com
1.53%		ramada.com

Source: Alexa.com.

Exhibit 12   Room Key's Partnership with Travelocity Diverting Bookings to Res99
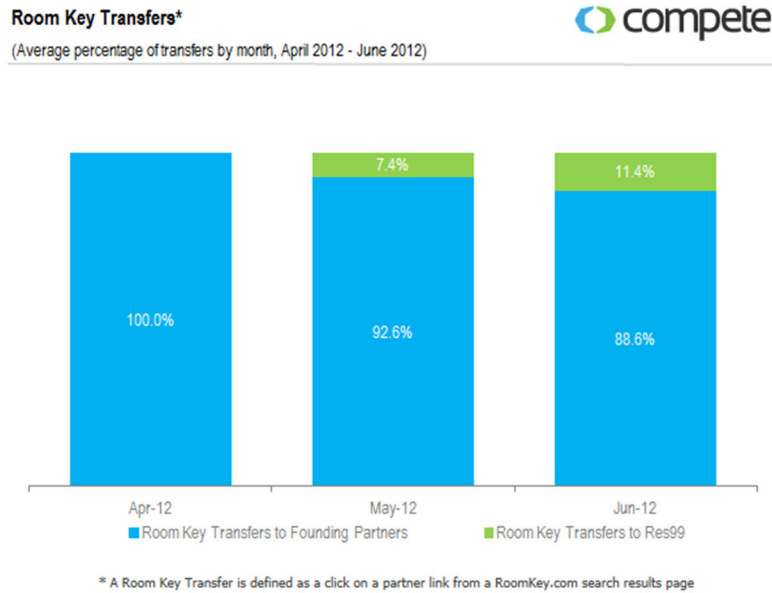
Source: Steve Solinsky, "The Curious Identity of RoomKey.com," Compete, September 18, 2012, https://
blog.compete.com/2012/09/18/the-curious-identity-of-roomkey-com/, accessed 04/29/2015.

Exhibit 13   Founding Partners' Lost Bookings to OTAs
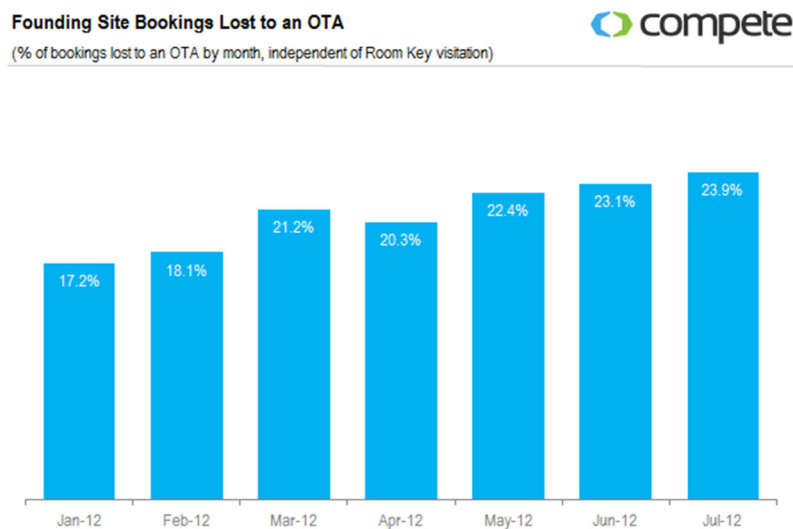
Source: Steve Solinsky, "The Curious Identity of RoomKey.com," Compete, September 18, 2012,
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