

## A Hotelier's Guide to Budget Planning in '08 - By Max Starkov and Jason Price

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### Best Practices in Developing the 2008 Hotel Internet Marketing Budget

Hoteliers are in the height of the budget planning season for 2008. Understandably, there is a great level of anxiety in the industry. Are you allocating the right budget for hotel marketing? What are your peers doing with their budgets? What are the best practices for 2008? Web 2.0, social media, consumer generated media-what should I do about these new media formats? What are the latest trends in Internet marketing and how should I account for them in the new budget? For a second year in a row, Hospitality eBusiness Strategies takes a closer look at some important aspects of Internet marketing in hospitality and what marketing activities and line items should comprise the 2008 Internet marketing budget.

### **Critical Trends to Consider in Your 2008 Budget**

There is no doubt the hotel's overall competitiveness today is determined to a great extent by how well it manages its Internet marketing and distribution efforts. In 2008, 60% of all travel bookings and up to 40% of all hotel bookings in North America will be generated from the Internet (PhoCusWright, HeBS), which represents a 15%-16% growth over 2007. Another 25-30% of hotel bookings will be directly influenced by online research, but booked offline. By 2010 the Internet will contribute over 45% of all hotel bookings in North America.

Another positive fact is that the indirect online channel is losing market share. The negative impact of third-party online intermediaries (TPIs) is still felt throughout the industry, but to a much lesser degree. The ratio between the direct and indirect online channel continues to improve in favor of the direct channel: from 52:48 back in 2002 to 60:40 in 2007 and is projected at 62:38 in 2008. Some major brands already enjoy very healthy 85:15 direct vs. indirect online channel ratios.

The following five distinct trends must be taken into consideration when planning your 2008 Internet marketing budget:

1. **Online vs. Offline Channel:** The online channel is definitely the winner. Online bookers are predominantly influenced by online marketing and advertising formats, including online chatter and customer reviews. Now more than ever, billboards along the highway, hotel print brochures, and other traditional means of advertising should be shifted towards the web. In 2007, a remarkable 68% of hoteliers reported that they would be shifting their budgets from offline to online marketing activities (HeBS 2007 Benchmark Survey).
2. **Internet vs. GDS:** Further erosion of the GDS channel is self evident: less than 17% of hotel inventory in the US is sold via the GDS today, and the number of retail travel agency locations in the US in 2007 has declined to less than 19,000 vs. more than 35,000 in 1996. Most major hotel brands sell more hotel rooms via their brand websites, than via the GDS.
3. **Web 2.0 and Social Media:** Web 2.0 and consumer-generated media sites continue to create a lot of buzz in the industry. Online travelers are increasingly influenced by social media sites and peer reviews.
4. **Direct online distribution has become the way to do business on the Web.** Greater amounts of room inventory, at higher ADRs, are being sold direct to consumer via the direct online channel-the hotel's own website. Marketing the hotel online via search marketing, email marketing, strategic linking, and online sponsorships has to be the main focus of the 2008 hotel marketing budget.
5. **Channel Cost-Effectiveness and ROI:** The shift from more expensive to less expensive distribution channels has become the norm in hospitality. Lessening your dependence on higher cost channels and driving more revenues through your own website should become the main objective of your 2008 marketing budget.

Planning the right marketing budget for 2008 requires hoteliers to balance limited funds with marketing strategies that will hopefully generate the highest possible returns, so that your hotel website can function as your main revenue generating channel with the highest ROI.

### **Industry Benchmarks for Allocating Your Internet Marketing Budget**

A year ago Hospitality eBusiness Strategies (HeBS), in conjunction with NYU's Tisch Center for Hospitality, Tourism, and Sports Management, conducted a groundbreaking 2007 Benchmark Survey on Hotel Internet Marketing Budget Planning and Best Practices in Hospitality. This benchmark survey asked hoteliers what Internet formats and methods they are using to reach their customers, what Internet marketing practices they find most productive, why they choose to devote marketing dollars to certain mediums over others, and more.

The following table shows how hoteliers planned on spending their marketing funds in 2007. The highest percentages were reported on website redesign and optimization, search engine optimization and email marketing:

1. Website optimization	71.9%
2. Search Optimization & Organic Search	68.3%
3. Website re-design/design	62.9%
4. E-mail marketing	58.7%
5. Strategic Linking/Partnerships	52.7%
6. Search marketing-Paid Search	40.7%
7. New media formats (e.g. CGM, blogs, etc.)	16.8%
8. Display advertising (banners)	16.2%
9. E-mail Sponsorships	6.6%

The survey shows hoteliers understand the hotel Internet marketing budget should take a holistic view of the hotel online environment and adopt a comprehensive, long-term strategic approach. The hotel budget has to include Internet marketing 'fundamental' formats (e.g. website re-designs and organic search optimizations, search marketing, email marketing and strategic linking, as well as new media formats such as Web 2.0, social media, CGM, blogs, etc.)

You can see a summary of the [2007 HeBS Benchmark Survey results here](#).

A new survey is now underway for 2008, so if you are a hotel professional involved in the budget planning process, please participate in the [2008 Benchmark Survey on Hotel Internet Marketing Strategies, Budget Planning and Best Practices](#).

### Framework of the 2008 Internet Marketing Budget

The five important industry trends we have identified above should be taken into consideration when planning the hotel Internet marketing budget for 2008. Lessening your dependence on higher cost channels and driving more revenues through your own website should continue to be the main objective of your 2008 marketing budget.

The 2007 HeBS Benchmark Survey clearly shows that hoteliers have matured and now understand that long-term, strategic objectives and fundamental Internet marketing formats such as website re-designs and optimizations, organic search optimizations, email marketing and strategic linking produce higher ROIs than 'quick fix' solutions, such as SEO and PPC.

The following chart shows hoteliers believe that long-term solutions such as website optimization produce higher ROIs vs. short-term solutions:

(as % of internet marketing budget)	Overall Hotel Industry (%)
Website redesign	14.2
Website optimization	14.0
Strategic linking	10.1
Pay-per-click/paid inclusion	13.6
Local search	3.3
Meta search (Kayak, Sidestep, etc.)	3.7
Search engine optimization	11.4
Display advertising (banners)	5.1
Email marketing	12.8
Consulting fees	5.3
New media formats (e.g. Web 2.0)	3.7

Ironically, hoteliers do not perceive Paid Search Marketing as influential to the ROI (see Table 2), yet in Table 1 above more of the total budget is devoted to Paid Search. 2007 was the year of Web 2.0, as it dominated so much attention and was the subject of so many industry articles, yet new forms of media scored low in Table 2 and received little budgetary attention in Table 1. It will be interesting to see what the 2008 HeBS Benchmark Survey reveals.

### Building your 2008 Internet Marketing Budget

By now, hoteliers should all know the importance of the Direct Online Channel and the cost of working with third-party intermediaries. Selling directly to the consumer should be the number one focus of your Internet marketing strategy. If you do not have the essentials in place - an up-to-date, user-friendly, search-engine friendly, booker-friendly and customer-interactive-friendly website, then you must begin with a website redesign and optimization. Once you have taken this vital step and your website is up to 2008 standards, then you can completely focus on your Internet marketing efforts.

Here are our comments on the top 3 line items hoteliers believe produce the highest ROIs that should be included in your 2008 Internet marketing budget:

#### Website Optimization

71.9% of the 2007 HeBS Benchmark Survey respondents said they believed website optimization generated the highest ROI's, and the second highest portion of the budget, (between 14%) was allocated to this activity.

If your hotel website is less than 2 years old, perhaps you do not need to re-design your site. A website optimization may be sufficient to update your website to industry's best practices. This process involves improving the quality of the website content and rich media, enhancing usability and trust-worthiness of the site, presenting all key aspects of your hotel product,

addressing your main customer segments, and boosting search engine friendliness via enhancing the keyword density, page titles, description tags and meta tags. For franchised properties without a stand-alone website, optimization of the property mini-site on the brand website is the perfect starting point.

Website optimization leads to increased conversion rates and ROIs, and boosts Internet-related direct-to-consumer bookings. A Website Optimization Audit of the existing hotel website, usually performed by an unbiased outside consultancy, is a good start in this respect.

### **Website Redesign**

62.9% of the 2007 HeBS Benchmark Survey respondents said they believed website redesign generated the highest ROI's, and the highest portion of the budget, 14.2%, should be allocated to it.

In 2008, online users will have even higher expectations for hotel websites. If you do not have the essentials in place - an up to date, user-friendly, search-engine friendly, booker-friendly and customer-interactive-friendly website, then you must begin with a website redesign in order to bring your website up to 2008 online user expectations and best practices in consumer online behavior and purchasing habits.

Over 75% of active Internet users in the US use broadband at home, and 100% access broadband at work. For the hotel website this means faster download times, faster searches, more sites and pages viewed, and more rich media and applications possible. Hotel re-design does not only mean dressing up the site in new clothes. It means implementing a fundamental website optimization strategy. In addition, the new website must offer better imagery and rich media features, and higher display resolution (1024 x 768 pixels is already the norm) as well as interactive functionalities such as mapping, weather, event calendars, and Web 2.0/CGM initiatives like experience and photo sharing, expert-managed blogs, etc.).

Look for an experienced, award winning full-service Internet marketing and website design company that specializes only in hospitality, capable not only of building an award-winning, fully optimized hotel website, but also launching an effective Internet marketing campaign with high ROIs for the new site.

A word of advice: make sure to take into consideration the so called 10:1 Internet marketing rule. As a rule of thumb, within a year of the hotel website re-design a hotel should spend 10 times more on marketing the new hotel website than was spent on the cost of designing or re-designing the website (i.e. if you spent \$10,000 on a website re-design, then you have to spend at least \$100,000 in the next 12 months to promote the property website).

### **Case Study: Resort Brand under 30 Properties**

This resort company has beautiful oceanfront and mountain properties in the U.S. and Canada. In the past there was no consistent online strategy in place. There was a brand website, but each property moved in its own direction, there was no coordination and lots of redundancy. Some resorts had more than one website. All resorts had a similar look that was drawn from a corporate template, few resorts had any images, and there was no destination content. The site looked and performed more like it was 1996 rather than 2006. Last year the brand site generated approximately \$300,000 in total revenues.

HeBS fully re-designed and optimized the brand site in early 2007, and launched a very robust, full-scale Internet marketing campaign for the new site. The new site features rich media, deep and relevant content and product descriptions, Web 2.0 functionality, and is fully search engine compliant. It 'speaks' to the brand's core customers: family travelers, romance travelers, groups, and lifestyle. Not surprisingly, shortly after launch, the new site won a major website design award. Eight months into 2007, the site had generated \$2.3 million in total revenues.

The fundamental message is this: the new website is user friendly, search engine friendly, booker friendly, and customer-interactive friendly, therefore the conversion of visitors who make it onto the site is exponentially higher than before the re-design. This, coupled with an intensive Internet marketing campaign, resulted in ROIs well above industry's average.

### **Search Marketing**

68.2% of the 2007 HeBS Benchmark Survey respondents said they believed search optimization/organic search generated the highest ROI's, and allocated 11.4% of the budget to this line item.

Indeed, according to a recent HeBS analysis, revenues directly attributable to search-generated leads (natural and paid search) produced the highest source of website traffic and revenues for the hotel - more than email marketing, strategic linking, online banner ads, third party intermediaries, Web 2.0 initiatives and other forms of advertising combined. On average, search engines contribute over 50% of the hotel website traffic. In reality, this percentage varies greatly (48%-75%) depending on website optimization strategies, Internet marketing proficiency, property type, customer segmentation, location, budget allocations, etc.

On the other hand, hoteliers should not jump into conclusions that a quick SEO fix of the hotel website will achieve any meaningful results. On the contrary-such quick SEO fixes often lead the hotel website to be 'banned' by the main search engines. No wonder the mere term 'SEO' has negative connotations in the industry. Google and Yahoo are among the smartest companies in the world, and their search engine technology is definitely one of the smartest pieces of software ever invented and cannot be fooled by cheap and transparent SEO tricks.

Only a fundamental, comprehensive search engine marketing strategy can bring long-term, legitimate results and sustainable search rankings to the hotel website. Website optimization, described above, is part of this strategy. As discussed above, there is no doubt that search influences the hotel's bottom line. Search engine marketing is a comprehensive undertaking that

includes both organic and paid search, and has six unique formats: organic search, paid search, local search, meta search and the more recent additions, mobile search and Web 2.0 search. Each of these search marketing formats requires the development of a differentiated approach and marketing strategy, and naturally deserves a line item in the hotelier's Internet marketing budget.

Besides website optimization, website re-design, and search marketing, here are the other top line items to include as you devise the 2008 Internet marketing budget for your hotel:

eCRM Initiatives

Email Marketing

Strategic Linking

Display/Banner Advertising

Online Sponsorships

Web 2.0/social media/CGM initiatives

Professional development to gain in-house Internet marketing expertise

Website Analytics and Campaign Tracking

### **A Closer Look at Web 2.0 in 2008**

Web 2.0 is worth repeating here as it continues to be the most prevalent topic in most discussion circles. Social media/consumer generated media is an important component to the hotel's marketing mix may find itself ranked much higher in the upcoming benchmark survey.

Although Web 2.0 initiatives are important, they should not come at the expense of the fundamental Internet marketing strategies such as search marketing, website re-design and optimization, email marketing, strategic linking, online sponsorships and display ads, eCRM, and website analytics and campaign tracking. Once these are in place, you should slowly start to integrate Web 2.0 initiatives into your Internet marketing strategy.

There are three approaches to building the hotel Web 2.0 / CGM strategy. Which approach to use depends on your situation and needs. If the goal is to protect and monitor the 'chatter' on the web about your hotel for whatever reason, then a Brand Defensive Strategy should be entertained first. If the goal is to leverage the expert knowledge that currently exists at your property out there on the web, then consider a corporate sponsored CGM initiative, like a hotel blog. Lastly, if the goal is to simply communicate to readers on high traffic Web 2.0/CGM sites, then you can advertise on them (run of site banner on MySpace.com goes for as little as \$2-\$3 CPM).

Here are some ways to start integrating Web 2.0 initiatives into your Internet marketing strategy:

Photo and experience sharing

Sweepstakes and contests

Surveys and comment cards

Expert blog on the hotel website

Customer testimonials on the website

Social networking profiles (e.g. Facebook, LinkedIn, MySpace)

Word-of-mouth social media initiatives

Monitor and react to customer reviews on social media sites

RSS Feeds

### **Conclusion**

Hoteliers need a comprehensive Internet Marketing Strategy rather than a fragmented and incomplete Internet marketing effort with ad hoc initiatives. Focusing only on certain aspects of the hotel Internet presence in isolation of the overall Internet marketing and distribution strategy will result in serious underutilization of the direct channel and missed revenue generating opportunities.

Hoteliers do not have unlimited budgets and they have to find the marketing strategies that will generate the highest ROI. Knowing what your peers are doing may help provide the rationale to increase or decrease certain parts of the budget. In 2008 we anticipate no surprises but more rationalization as to why one line item was increased over another, and by what amount, or removed altogether. Use this article as a tool to set some parameters when creating the budget and don't forget to take the latest survey, the [2008 Benchmark Survey on Hotel Internet Marketing Strategies, Budget Planning and Best Practices](#)

Consider seeking advice from an experienced Internet marketing hospitality consultancy to help you build your 2008 Internet Marketing Budget, and implement latest trends and best practices in your Internet marketing efforts to realize substantial ROI and revenue growth.

*Note: Mariana Mechoso, Manager eMarketing Services at HeBS, also contributed to this article.*

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