



Backgrounder

The Impact of Online Travel Agencies on the Tourism Economy

The tourism industry has been transformed by the evolution of digital technology. Online Travel Agencies (OTAs) have changed the way guests research their travel and book their accommodation. While OTAs seemed like an ideal partner in the beginning, they now dominate the travel landscape, creating numerous unintended consequences:

- **Lower guest satisfaction.** J.D Powers reports that customers who booked via an OTA were 45 points less satisfied than those who booked directly with the hotel. Guests who book through an OTA tend to be more price-sensitive, have lower levels of satisfaction with their stay, and report more problems than guests who book direct.
- **Disintermediating hotels and marketing organizations from the traveller.** Because OTAs “own” the customers who book through them, they acquire massive amounts of consumer data which they use to sell other destinations.
- **Lost tax revenue.** Governments do not capture corporate and excise taxes on the OTA mark up.
- **Reduced profitability of the accommodation industry.**
 - OTAs buy hotel rooms at a wholesale rate and resell them to consumers at a retail price.
 - OTAs require hotels to agree to rate parity, which requires hotels to maintain the same rates for the same product regardless of what commission the OTA makes. OTAs can reduce prices below minimum contracted margins by reducing their commission. This puts tremendous pressure on hotels to match the OTAs’ prices.
 - OTAs require hotels to give them last room availability, which means that as long as a hotel has a room for sale, the OTA has a right to sell it at their contracted terms and prices.

Because their transaction is with the OTA, guests are the OTAs customer, not the customer of the hotel where they actually stay. OTAs purchase rooms from hotels at a discount, and resell those rooms to consumers at a higher rate.

| | Room Sold Through OTA | Room Sold Directly by Hotel |
|-------------------------------------|--------------------------|--------------------------------|
| Room Rate including taxes | \$113.00 | \$113.00 |
| 18% Commission | \$20.34 | N/A |
| Effective Room Rate Including taxes | \$92.66 | \$113.00 |

Check In Canada™ estimates that commissions earned by OTAs in Canada were over \$400 million in 2015 alone.

Hotels are moving to take back their guests and increase direct bookings. Through Check In Canada™, accommodation providers are able to grow their direct bookings, increasing guest satisfaction and enhancing their profitability.