
Online Travel Agencies: A Short-Term Boon or Long-Term Threat to Hotel Independence?

March 15, 1998

Americas Great Resorts

The internet is reshaping travel distribution before our eyes. Jupiter Communications' latest forecasts paint a dazzling picture: online travel bookings could surge from under \$100 million today to several billion dollars by the early 2000s, driven largely by hotel reservations. Major players like Microsoft's Expedia, Travelocity, and emerging hotel-focused sites promise unprecedented reach, lower distribution costs than traditional GDS systems or 800-numbers, and the ability to fill rooms that might otherwise sit empty. For many hoteliers, these Online Travel Agencies (OTAs) feel like a godsend in a competitive marketplace.

Industry observers rightly note the disintermediation risks facing traditional brick-and-mortar travel agents. With airlines slashing commissions and consumers embracing self-booking tools, thousands of agencies may soon find themselves squeezed out. Hotels, however, are being encouraged to view the web as an opportunity, build direct booking sites, form strategic partnerships with the new platforms, and capture a slice of this explosive growth.

Yet a closer look suggests the enthusiasm may be overlooking a deeper shift in power that could prove far more problematic for hotel operators than anyone currently anticipates.

As these OTAs mature, they are not merely neutral conduits. They are rapidly positioning themselves as the primary customer-facing interface. In the merchant model already gaining traction, OTAs purchase room inventory wholesale and resell it, controlling pricing, presentation, and crucially, the customer data generated from the transaction. Hotels risk ceding ownership of their guests' profiles, preferences, and booking histories to these intermediaries. Once lost, that relationship becomes difficult to reclaim.

Commissions and transaction fees, initially attractive discounts for volume, have a way of creeping upward as OTAs consolidate their market position. What begins as a cost-effective way to fill rooms could erode margins over time, especially for independent and mid-tier

properties with thinner profit buffers. The very efficiency that makes OTAs appealing today may lock hotels into dependency tomorrow, reducing direct customer relationships and bargaining power.

Forward-thinking operators should not dismiss the online channel, but they must approach it with eyes wide open. Aggressive investment in proprietary websites, loyalty programs that drive direct bookings, and careful negotiation of data-sharing terms in partnerships will be essential. The internet offers tremendous potential, but history shows that intermediaries who control the customer gateway rarely remain content with modest slices of the pie.

The full implications of this power imbalance may not be obvious in 1998, while OTAs are still nascent and largely seen as helpful room-fillers. But those who study the trajectory of other industries disrupted by technology warn that today's helpful partner can become tomorrow's dominant gatekeeper. Hoteliers who act now to preserve control over their customers and margins will be far better positioned when the online travel market reaches its predicted multi-billion-dollar scale.

The revolution is here. The question is whether hotels will lead it, or become increasingly subject to it.