Expedia's billing changes would hit hoteliers in the bottom line

By Danny King, Travel Weekly

A recently launched Expedia program that enables travelers to pay for their hotel stays at the front desk at the end of their stays could cost hoteliers millions of dollars a year in the form of higher credit card and royalty fees, according to a recent report.

Traditionally, Expedia clients have paid in advance on the online travel agency's website.

But Expedia's Traveler Preference Program, which debuted this summer, lets the client pay at the end of a stay, which could result in about $20 million in collective annual profits being moved from hoteliers to Expedia, according to a report distributed last week by Providence, R.I.-based Hotel Asset Value Enhancement, which manages more than $2 billion worth of hotel assets.

In large part that is because participating hotels will have to pay the credit card fees that had previously been borne by Expedia. Additionally, branded hotels will pay higher royalty fees that will be calculated based on the gross revenue from the Expedia room sale and not on the revenue net of Expedia's commission.

"While the change in structure will not affect what the guest pays in rate, it will have a negative impact on U.S. hotel ownership to the tune of $500 million in real estate value unless concessions by Expedia, brands and managers occur," the report stated.

Expedia, No. 2 on Travel Weekly's 2012 Power List, disputed the report's findings.

The OTA asserted that the study overstated how many guests were likely to move their bookings to the hotel desk, noting that many travelers preferred the convenience and security of paying up front through Expedia.

In addition, said Adam Anderson, Expedia's director of industry relations, many hotels already incur Expedia-booked credit card fees by opting to receive immediate payment from Expedia upon guest checkout instead of waiting for the invoice from Expedia to be paid.

"When a traveler is presented with the choice of how they would like to pay, they are notably more likely to book when compared with travelers only presented with a single option," Anderson said. Bookings through the program "in our test markets show an increase in length of stay by approximately 5 percent," he said.

The report reflects what has long been an uneasy relationship between hoteliers and OTAs, which will account for about 15% of the $114 billion in U.S. hotel revenue generated this year, PhoCusWright estimated in a report late last year.

Hoteliers have said OTAs are the most expensive sales channel. By some estimates, OTAs take about a 25 percent cut in the form of wholesale room discounts and/or commissions, compared with about 10 percent for travel agent bookings through GDSs.

OTAs have countered that their presence boosts overall hotel bookings and that they incur much of the marketing and advertising costs that would otherwise have been borne by hotel operators.

Either way, the issue is especially relevant because Expedia accounts for about 40 percent of the U.S. travel bookings through OTAs, more than twice the next-largest OTA in the

U.S., Orbitz.

PhoCusWright director of research Carroll Rheem said that there was some validity to Expedia’s claim that some hotels would benefit from the program through additional business from travelers preferring to pay on the back end.

“Some consumers like being able to pay later and upon checkout,” Rheem said, adding that hotels benefit further because the revenue is collected sooner and the accounting for the stay is simplified.