Opportunities and Challenges Brought by Online Travel Agency Platforms to Economy Hotels

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Abstract. Online Travel Agency platforms have attracted a large number of consumers through their unique marketing methods and have gradually gained control over hotel market traffic. This paper uses the Home Inn Hotel Group as a case study to systematically analyze the dual impact of Online Travel Agency platforms on China's budget hotel sector using Porter's Five Forces model. Research shows that while Online Travel Agency platforms help hotels increase revenue, they charge high commissions and attempt to monopolize the hotel customer market, leading to intense competition between hotels and Online Travel Agency platforms. Due to the high commissions charged by Online Travevl Agency platforms, the profit margins of budget hotels have been severely reduced. To help budget hotels in China survive and develop better, this paper provides constructive suggestions based on the analysis results, including strengthening the multi-channel construction system, optimizing the cooperation model with Online Travel Agency platforms, and offering differentiated services. The study provides practical suggestions for the "de-OTA" strategy of Chinese economy hotels, but it also has limitations such as the lack of relevant data analysis. In the future, relevant data can be updated, and further research can be conducted on the effectiveness of multi-channel marketing strategies for Chinese economy hotels in "de-OTA".

1 Introduction

The COVID-19 pandemic has brought unprecedented impacts to the labor-intensive hotel industry, forcing many hotels to close due to unstable customer flows, and the entire hotel market has entered a downturn. But with the easing of China's pandemic policies and the economic recovery, the Chinese hotel market has gradually regained its vitality. Taking Home Inns & Hotels Group as an example, the occupancy rate of its economy hotel rooms increased from 59% in 2020 to 69.2% in 2024.

OTA (Online Travel Agency), which is an online travel agency, is essentially a travel intermediary. It collaborates with merchants to attract tourists to purchase hotel rooms and scenic spot tickets at low prices or through bundled sales on the internet, and earns commissions from these transactions [1]. Since the 21st century, domestic OTA platforms have been flourishing, with brands such as Ctrip, Fliggy, and Qunar emerging. They have

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greatly facilitated travelers' journeys through one-stop services and have been favored by a large number of travelers, especially young travelers. According to statistics, in 2019, OTA platforms accounted for 65.1% of the distribution of domestic hotel products [2]. At the same time, bookings made through OTA platforms accounted for more than 90% of all online bookings in China, and OTA platforms have an absolute dominant position in the hotel booking market.In 2023, after the pandemic, this proportion further increased. As a major player in the OTA industry, Ctrip controls a large portion of the hotel booking market. According to Ctrip's financial report, Ctrip Group's annual revenue was 35.666 billion yuan in 2019, and by 2023, Ctrip Group's annual revenue reached 44.51 billion yuan. Among its revenue share, hotel accommodation bookings accounted for as high as 38.7%.And this also proves that hotels and OTAs are highly dependent on each other.

The explosive growth of OTA platforms has, on one hand, helped hotels attract a large number of customers through traffic, positively impacting their revenue [3]. But on the other hand, the commissions taken by OTA platforms from hotels are increasing [4]. Many platforms require hotels to pay a commission of 10%-15%, and the commission for budget hotels might be even higher, which has a significant negative impact on hotel profits. Moreover, due to the low-price promotion model of OTA platforms, the profit margins for hotels have been further squeezed, posing significant challenges to their operations. Therefore, many hotels, especially budget hotels, are currently experiencing a trend of "de-OTA". They are trying to break free from their reliance on OTA platforms by creating membership systems for direct sales or choosing other methods to sell their products. But currently, many hotels are highly dependent on OTA platforms, and many emerging hotels need to leverage the platform's traffic to attract customers to their products and increase occupancy rates. Therefore, how budget hotels can ensure their own revenue while using OTA platforms to attract traffic has become a focal issue. Currently, there is little research on this aspect in the country, making this study of significant importance.

Currently, hotels and OTA platforms mainly have two cooperation models: the merchant model and the agency model [5]. In the merchant model, the OTA platform controls the product pricing and profits by earning the price difference; whereas in the agency model, the hotel controls the product pricing, and the OTA platform earns a commission by taking a certain percentage of the hotel's product sales revenue. Currently, the agency model is the mainstream mode of cooperation between hotels and platforms [6]. This paper aims to explore better cooperation methods between hotels and OTA platforms through the study of OTA platform marketing mechanisms and the marketing channels of budget hotels.

This article will analyze the case of the Home Inn Group using Porter's Five Forces model and, based on this analysis, propose feasible recommendations for China's economy hotels.

2 Case study

Home Inn Group was established in 2002 and was acquired by Beijing ShouLv Group in 2016. It owns numerous brands, such as Home Inn, Hanting, Motel 168, and Cloud Season. Among these brands, as of 2024, Shoulv Home Inn Group owns 1,543 economy hotels, 1,448 mid-to-high-end hotels, and 2,007 light management hotels. A significant part of the reason for the acquisition of Home Inn Hotel Group was the continuously rising commissions on OTA platforms. According to research on the competition and cooperation between Home Inn Hotels and OTA platforms, the transaction volume in China's online market has been continuously increasing since 2010, and OTA platforms have accumulated a large number of customers for themselves in the process of competing with hotels for members. This has given OTA platforms the upper hand in negotiations with hotels, making it difficult for hotels to counter the rising commissions from OTA platforms. As early as 2014, Home Inn announced its complete withdrawal from Qunar. The reason was that Home Inn believed

Qunar had violated their cooperation agreement by selling hotel rooms at prices lower than those stipulated in the agreement, severely affecting Home Inn's pricing system and even interfering with its cooperation with other OTA platforms. In 2015, the two parties clashed again, with Home Inn accusing Qunar of selling hotel rooms at fake low prices, only for customers to be informed that there were no rooms available after completing their reservations. Home Inn believed that this move severely harmed its customers' interests and negatively impacted its corporate image, leading to the decision to terminate the partnership again [2].

There are two cooperation models between Qunar and Home Inn. One is a direct connection cooperation between the platform and Home Inn Group, and the other is a direct cooperation between Qunar and Home Inn's directly-operated or franchised stores. Although the direct cooperation between Qunar and Home Inn Group has currently ended, some Home Inn stores have chosen to continue direct cooperation with Qunar due to operational pressures.

3 Case analysis

The main focus of competition between Home Inn and OTA platforms revolves around pricing power. OTA platforms hope to capture the market through differential pricing and low-price strategies, while Home Inn aims to maintain its own pricing system, insisting that platform prices must be higher than those on its official website. This article will next use Porter's Five Forces model to further analyze the game between hotels and OTA platforms.

3.1 Introduction to Porter Five Forces Model

The Porter Five Forces model is a strategic analysis tool proposed by Harvard Business School professor Michael E. Porter in 1979, aimed at helping companies assess the relationship between industry competitive structure and profitability. Porter believes that a company's profitability is related to five aspects: the bargaining power of suppliers, the bargaining power of buyers, the threat of substitutes, the rivalry among existing competitors, and the threat of new entrants [7].

3.2 Bargaining power of suppliers

As one of the suppliers of hotel customer channels, OTA has rapidly developed in China in recent years, with its share in hotel bookings continuously increasing and far surpassing the direct sales ratio of hotels [2]. The main reason for this phenomenon is that OTAs, by leveraging their extensive product offerings and unique marketing strategies, have attracted a large number of consumers, making OTAs the primary source of hotel traffic [8]. Although Chinese hotels are currently beginning to strengthen their membership systems to attract consumers to make reservations through direct hotel channels. However, research shows that while hotel membership services have a positive impact on consumers choosing to book through the hotel’s official website, they do not significantly affect consumers' bookings on OTA platforms. The quality of OTA platforms not only has a positive impact on consumers' choice to book through OTA platforms but also has a negative impact on their choice to book through hotel websites [9]. Therefore, OTA platforms have gained the initiative in their competition with Chinese budget hotels by leveraging various advantages.

3.3 Bargaining power of customers

OTA platforms integrate various products related to clothing, food, accommodation, transportation, and entertainment involved in travelers' trips, making it more convenient for consumers to compare prices between different hotels. In addition, OTA platforms often use discounts to attract customers, sometimes even making the platform prices lower than the hotel’s official website prices. This increases consumers' sensitivity to prices, and hotels may be forced to engage in price competition. This will lead consumers to develop a habit that is detrimental to hotels—consumers become accustomed to looking for lower prices on OTA platforms and choosing the hotel with the lowest price [10]. This not only impacts the hotel's direct sales channels but also reduces the hotel's profits.

3.4 Threat of substitutes

The marketing channels for hotels originally included various online and offline methods, but with the growth of OTAs, domestic hotels' ability to attract customers has increasingly diminished, and most hotels can only rely on the traffic from OTA platforms. Research shows that in 2015, the distribution share of hotel rooms in China was 17% for direct sales channels and 39% for OTA platforms, with the number of OTA platform users reaching 200 million.By 2019, although the direct sales channel accounted for 24% of hotel room distribution, the OTA platform accounted for 65.1%, and the number of OTA platform users reached 400 million. After the epidemic, the number of platform users reached 490 million [2,11]. According to the "2021 China Online Travel Industry Research Report," although the scale of China's online travel transactions experienced a temporary decline in 2020 due to the pandemic, it has shown an overall growth trend from 2015 to 2021. Although Chinese hotels have begun to strengthen their membership systems to mitigate the impact of OTA platforms, OTAs still generate the most revenue for hotels among their marketing channels. For many small and medium-sized hotels, the cost of building their own direct sales channels is too high, and many hotels have planned from the outset to rely on OTA platforms to attract customers. If this continues for a long time, OTAs may completely replace other marketing channels for hotels, creating a monopoly.

3.5 Competitive rivalry

Due to OTA's monopoly on customer behavior data, hotels find it difficult to reach high-value customer groups. As a result, hotels are forced to pay additional exposure fees to OTA platforms to increase their visibility and enhance their competitiveness. OTA platforms have their own databases that store consumer behavior and conversion data. This data can help the platform analyze the factors influencing consumers' purchasing decisions. If hotels are unable to obtain this data, it becomes very difficult for them to identify their target customers, which can even affect the repeat purchase rate of customers at the hotel and have a negative impact on the cultivation of brand loyalty for the hotel. In addition, due to the low-price promotional strategies of OTAs, various budget hotels can only join various promotional activities and engage in price wars to gain a price advantage. Research shows that both hotels and OTA platforms tend to compete with lower-tier companies upstream. Due to opportunism, hotels offer lower room rates to downstream OTA platforms, profiting at the expense of their competitors' profits [11].

3.6 Threat of new entrants

In the face of the "de-OTA" threat to hotels, many OTA platforms have begun to invade the hotel industry as pure intermediaries, establishing their own brands, such as Ctrip and Meituan. These OTA companies have extensive membership systems and have taken many members from the hotels. This poses a significant threat to many hotels, especially small and medium-sized hotel brands. Ctrip Group established the Rezen Hotel Group in 2018 to attempt an invasion of the upstream hotel market. It aimed at the low penetration of high-end hotel chains in China, focusing on the high-end hotel market in first- and second-tier cities, thereby creating differentiated competition with traditional budget hotels. Meituan Group also launched the Qingzhu Hotel in 2019, targeting the small and medium-sized hotel market and the current demand in the existing hotel market, introducing design products suitable for small and medium-sized businesses. And through the "online operations consultant + offline operations consultant" 1+1 operation model, it helps hotel merchants improve their overall revenue. It has established over 3,000 hotels across China through a franchising model, posing a significant threat to the survival of small and medium-sized budget hotels in China [6].

4 Opportunities and Challenges

4.1 Opportunities for China's economy hotels

First, OTA platforms aggregate a large number of consumers, providing hotels with a convenient customer acquisition channel. Especially for budget hotels, OTA platforms can broaden their customer acquisition channels and break geographical limitations. At the same time, OTA platforms can use their algorithms to help hotels accurately target their customer base, efficiently promote hotel products, and to some extent, reduce the cost of customer acquisition and promotion. And it also effectively addresses the issue of high room vacancy rates during the off-season, helping hotels increase their revenue.

4.2 The challenges faced by China's budget hotels

OTA platforms help hotels generate revenue while also making a profit themselves. This cooperation model seems positive at first glance, but in reality, it poses a significant threat to the hotel industry. First of all, the profit model of OTA platforms mainly involves charging hotels a certain percentage of commission. As hotels become increasingly dependent on OTA platforms, the commission rates charged by OTAs to hotels have also been rising, which severely impacts the hotels' revenue and has a negative effect on their future operations. Moreover, OTA platforms currently have a monopolistic hold on hotels' customer acquisition channels. On one hand, consumers tend to develop consumption habits on OTA platforms, severely impacting hotels' ability to cultivate brand loyalty among consumers. On the other hand, once OTA platforms establish a monopoly, they may manipulate hotel prices, harming consumer rights and the hotel's image.

5 Suggestion

5.1 Strengthen the construction of a multi-channel sales system

First, hotels should optimize their own platforms, such as the hotel website and mini-programs. By increasing official benefits and other measures to enhance customer stickiness

and brand loyalty, hotels can respond to the competition from OTAs for hotel members. Currently, major hotel groups worldwide are strengthening their own membership systems, such as Marriott's "Loyalty Rewards Program" and InterContinental Hotels Group's "IHG Rewards Club" and "InterContinental Ambassador" membership systems. The goal of these marketing strategies is to enhance consumer brand loyalty and improve vertical bargaining power with OTAs by strengthening the operation of direct channels [12]. The membership system of China H World Group Limited is a good example of success, with 260 million members. Among the orders of H World Group Limited, 64.2% come from the central reservation system. H World Group Limited has effectively directed users to its own channels and reduced its reliance on OTA platforms by forcing its hotels to reduce the proportion of OTA orders.

Secondly, hotels should seize the "live streaming" trend, deeply engage with short video platforms, diversify their traffic sources, and reduce their reliance on OTA platform traffic. Currently, many hotels in the country have begun to join short video platforms and start live streaming to sell hotel products, including guest rooms. As of 2023, over 100,000 hotels in China have set up official accounts on short video platforms, attracting more than 1.5 million customers per month for these hotels. This indicates that more and more hotels in China are beginning to use short video platforms to expand diversified marketing channels, enrich the sources of hotel bookings, and achieve positive results [13].

5.2 Optimize the cooperation model with OTA platforms

OTA platforms are still the primary source of hotel customers. They possess a vast amount of consumer resources and can help hotels accurately target their desired audience. Therefore, hotels need to make good use of OTA platforms as a customer acquisition channel. However, hotels need to focus on expanding new customer resources through this channel, while also strengthening their own membership system to enhance customer brand loyalty and convert customers from public domain traffic to the hotel's private domain traffic.

5.3 Provide differentiated services

Hotels can provide additional services to customers from direct channels while ensuring the basic rights and experiences of all customers. For example, providing them with free breakfast vouchers and discounts on service facilities. The quality of hotel services is a key factor influencing customer choice, and compared to hotels, OTA platforms have relatively lower operating costs. Therefore, they are willing to offer more additional services to attract guests. Hotels also need to provide differentiated services, allowing customers to experience the differences in service when booking through different channels, thereby attracting customers to switch from OTA platforms to direct hotel booking channels.

6 Conclusion

This article analyzes the case of the competition between Home Inn and OTA platforms using Porter's Five Forces model, revealing the opportunities and challenges that OTA platforms bring to China's budget hotels. On one hand, OTA platforms provide hotels with efficient customer acquisition channels through precise algorithms, bringing a positive impact on hotel revenue. On the other hand, because OTA platforms monopolize hotel customers, they drive up platform commissions, squeezing hotel profits. In addition, OTA platforms compete with hotels for members, affecting hotels' ability to cultivate brand loyalty among customers, leading to a decline in customer repurchase rates.

The research can provide a breakthrough for Chinese economy hotels to break free from their reliance on OTA platforms, offering measures such as strengthening membership system construction, delving into short video platforms, and creating differentiated services to "de-OTA" themselves, which can constructively aid the future operations of Chinese economy hotels.

At the same time, this study also has certain limitations. This study does not discuss the long-term impact of technological changes on the relationship between hotels and OTA platforms. Finally, due to limited data sources, this paper lacks an analysis of relevant data, and the timeliness of some data is constrained.

In the future, this paper believes that there is still room for expansion in this research: For example, in the future, a longitudinal comparison of the effectiveness of multi-channel marketing for Chinese economy hotels can be conducted to observe whether multi-channel marketing strategies can reduce the dependence of Chinese economy hotels on OTA platforms in the long run. In addition, how to balance the bargaining power between hotels and OTA platforms, and conduct antitrust actions against OTA platforms, is also worth further in-depth research.

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