



CARIBBEAN  
HOTEL & TOURISM  
ASSOCIATION

## CHTA POSITION PAPER PROPOSED MERGER OF EXPEDIA WITH ORBITZ

August 31, 2015

As representatives for 32 National Hotel and Tourism Associations with more than 630 member hotels and over 300 allied members, the Caribbean Hotel & Tourism Association (CHTA) opposes the merger of the two leading online travel agencies, Expedia with Orbitz. CHTA urges the U.S. Department of Justice to deny the merger based on the following grounds:

- **Cost and Competitiveness** – All hotels, in particular small and independent hotels and attractions which are highly dependent on OTAs (Online Travel Agencies) to support business generation would be further exposed to high commissions and acquisition costs due to the lack of competitive OTA options
- **A New Duopoly** - A duopoly would be created, with over 95 percent of U.S. based OTA bookings controlled by two competitors, Expedia and Priceline
- **Added Vulnerability with European and Asian Business** – Bookings from Europe and Asia represent nearly 20 percent of the business generated in the Caribbean. Orbitz and Priceline are the predominant OTA sources for business from those areas. With the apparent demise of Orbitz – little OTA competition will exist in those areas, thus impacting acquisition costs and affecting overall sales.
- **Consumer Choice, Pricing and Deceptive Practices** – Consumers would have limited choice, with the convergence likely exacerbating the existing problem of deceptive practices by OTA affiliates, whereby consumers are misled into thinking they are booking directly with a hotel when they are not or that they are receiving added booking choices. Higher commissions and less choice will result in higher consumer costs.

CHTA is confident that the Governments of our member states are supportive of our position. Lacking a representative body of all of the Heads of Governments of the Caribbean, the Caribbean Hotel and Tourism Association, the largest private sector organizations in the region, seeks to address this important matter.

### **Importance of OTAs**

OTAs like Expedia and Orbitz have grown their role in recent years in the marketing of our industry and the generation of business. They can be an avenue to further brand identity, provide marketing expertise, offer business intelligence and data, advance standardization, and have brought some

innovations to the table. We recognize their importance and value their continued channel distribution role.

Currently, three major companies control most of the industry's OTA business: Expedia, Orbitz and Priceline. The OTAs complement hotel brand and chain distribution processes, and facilitate wide-scale distribution for small and independent hotels. They are important channel distribution partners and the industry looks to them to remain as such but not at the expense of on-going margin erosion for hoteliers.

### **Tourism's Essential Role in Caribbean Economies**

The Caribbean is the world's most tourism-dependent region according to data compiled by the World Travel and Tourism Council. In 2015 tourism is forecasted to contribute on average 15.4% to GDP and 14.4% to employment with a significant number of countries showing contributions in excess of 50%.

Local governments are highly dependent upon the tax revenue generated by tourism. Their broader economies are substantially impacted as tourism supports large numbers of direct and indirect business. International trading partners benefit tremendously through trade in goods and services, with the United States being the largest benefactor of tourism-related trade activity.

The profile of hotels in the region ranges from large resorts, chains and franchises owned and operated by US-based and international corporations to a preponderance of very small and independently owned hotels and attractions owned and operated by Caribbean nationals and residents.

Approximately 57 percent of our member hotels have 75 or fewer rooms. These hotels are far more dependent on OTAs for business generation, not having the resources and scale of the larger properties, franchise operators and chains to negotiate lower commission rates, attract higher levels of direct non-commissioned business, and better use of other distribution channels.

### **High Operating Costs Impact Business Viability and Result in Lower Sales**

The Caribbean has some of the highest costs of doing business in the world. Many hotels operate at a loss or small profit margin. Even a seemingly small increase in an OTAs commission rate cannot be absorbed without negative economic consequences.

Caribbean hotels are assessed some of the highest utility rates in the world. The cost of goods and services, many which need to be imported, far exceeds the industry global average. Investments in human capital are higher than the industry average.

Like our global counterparts, to be competitive many hotels offer value-added packages and amenities to attract business such as free WIFI, breakfasts, room amenities and upgrades – all which add to operating costs.

Considering these factors and with costs of utilities and the cost of airfares already high because of absence of scale in many of our small countries, this reduction in competition with the OTA convergence will lead to even higher costs that would exacerbate a situation where levels of unemployment are already critically high.

Combined with other high cost factors, increasing prices against rising expenses presents an ongoing challenge for the industry due to consumer resistance to price increases.

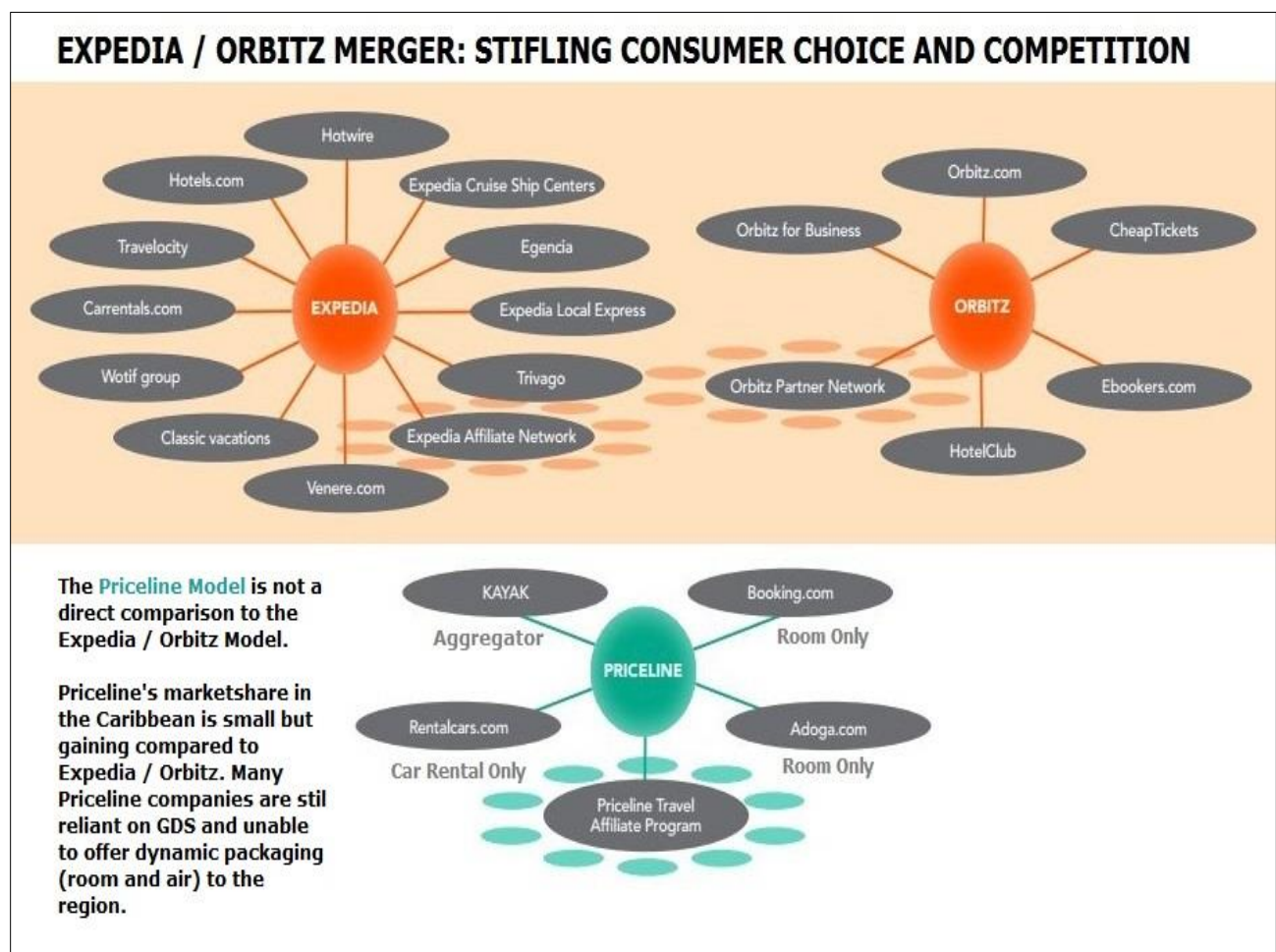
Recent industry research reaffirms that as the cost of a vacation increases the potential market share which the Caribbean can draw from decreases. By reducing competition and limiting consumer choices of booking agents, hotels and attractions will likely face higher commissions and higher costs. The unfortunate combination of lower sales and higher costs are a recipe for business disaster.

**US Interests in the Caribbean Affected**

Trade and investment interests in the Caribbean are dominated by the United States and fueled primarily by tourism. The vulnerabilities facing the region extend to the United States. Liberalized and open markets with fair competition are the cornerstone of U.S. economic policy for good reason. For the mutual benefit of the region and the United States, a duopolistic situation should not be facilitated thru U.S. policy.

**Convergence of OTAs is Already Well Underway**

The OTA sector has accelerated acquisitions and the establishment of affiliated companies in recent years. Hotels and attractions are increasingly left with little choice or negotiating power should they wish to tap into this essential travel distribution channel. The results of convergence are well illustrated in the following graphic, adapted from the American Hotel and Lodging Association:



### **Concerns About Rate Parity Breaches Growing**

Contracts between hotels and OTAs establish protocols for rate setting. Typically there is a 'rate parity' clause which provides that the hotel will maintain parity with the OTA with the minimum rates set by the hotel. A 'most favored nation' clause provides that the lowest rate offered to the public through the hotels website, or with competing OTAs must also be made available to the OTA. This is not always adhered to by both parties.

Greater consolidation increases the chance of affiliates of the parent undercutting the lowest available rates of the property established under the 'rate parity' and 'most favored nation' clauses in agreements.

### **Hotel Commission Rates Expected to Increase: Small and Independent Businesses Most Vulnerable**

Commission rates charged by the OTAs typically range between 15 and 30 percent of a transaction cost. Large resorts and chains are able to negotiate rates on the lower end. Small, independent operators, who are already faced with higher operating costs, lack the negotiating power of the chains, and are typically subject to the highest commission rates.

With Expedia controlling 75% of the OTA market, going from three to two competitors places the controlling OTAs in a position to dictate and increase commission rates. Small, independently owned hotels are particularly subject to the anti-competitive effects of this merger.

The industry is not convinced that commission rates won't increase with further consolidation by the OTA sector. Many operators continue to face high commission costs as consolidation has occurred in recent years. Industry statistics show that the average hotel commission rate on Expedia is 11% higher than it is on Orbitz. With Orbitz absorbed by Expedia, it is expected that the lower commission rates will increase.

In Australia, within several months after the purchase of Wotif by Expedia, commissions to hotels increased from 12 percent to about 15 percent. This could be a precursor of things to come.

Small and independent hotels are particularly vulnerable in that many rely on OTAs to fill 30-40 percent of their rooms, with some hotels receiving 60-70 percent of their business that way. Yet, their ability to negotiate lower commission rates is presently diminished and will likely be further diminished with consolidation. These serious anti-competitive effects will substantially harm the region's small businesses, which in many instances are the lifeblood of their local economies.

An argument can also be made that the OTA industry is in fact moving towards a monopoly, with one dominate player, Expedia. The Priceline model has its own challenges, with their affiliated companies Booking.com and Agoda being room only sites with a reliance on GDS vs. extranet, giving the Expedia group an increasingly lopsided advantage.

Many OTAs have little interest in carrying many of these small properties as a part of their inventory. More competition will likely require a broader group of OTAs to compete by including more of these small independently owned and operated properties. Further consolidation of OTAs will lead to both higher prices for existing inventory and reduce the likelihood of expanding the list of properties on offer.

### **In Summary**

Caribbean hotel and tourism-related businesses, particularly small and independently owned businesses, will be adversely impacted further should the proposed OTA convergence occur.

In this new world of borders being erased by ecommerce, the region is relying heavily on the United States to enforce its anti-trust and anti-competition laws through the US Department of Justice since we have no way of addressing this collectively in our region.

In the interest of supporting a free-market environment which affords businesses and consumers with the best possible choices and competitive pricing, CHTA appeals to the United States Department of Justice to deny the proposed merger.



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**2655 Le Jeune Road, Suite 910**

**Coral Gables, FL 33134**

**Phone: 1-305-443-3040**

**Fax: 1-305-675-7997**

**Email: [frank@caribbeanhotelandtourism.com](mailto:frank@caribbeanhotelandtourism.com)**