

Digital Transformation in the accommodation business

Spotlight text on the

E-Commerce Report Switzerland 2017

Digitisation in consumer sales

A qualitative survey from the merchant's point of view

9th edition

Ralf Wölfle, Uwe Leimstoll

University of Applied Sciences and Arts Northwestern Switzerland, School of Business, Institute for Information Systems

In collaboration with Prof. Dr. Roland Schegg, HES-SO Valais-Wallis

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University of Applied Sciences and Arts of Western Switzerland Valais (HES-SO Valais)
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Provider of the study



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This series of surveys has been carried out by the e-business team at the **University of Applied Sciences Northwestern Switzerland (FHNW)**. The team has many years of experience in conducting

surveys and moderating cross-company specialist groups. In connection with the E-Commerce Report, the department is concerned regarding the confidential handling of information provided by the individual participants. The survey concept focuses on cross-company valid statements relating to the development of B2C e-commerce in Switzerland. It has been ensured that the individual statements of the participants in the survey are condensed in such a way that the individual information will remain confidential. Information that is available to the public and contents that have been approved by the interlocutors, e.g. in the form of quotes, are excluded from this.

E-business is an area of specialism that forms part of the **Institute for Information Systems** at the School of Business at the University of Applied Sciences Northwestern Switzerland (FHNW). It fulfils the performance mandates "applied research and development", "services" and "further education". Of paramount importance is the perspective of the management tasked with the conception and realisation of e-business potential benefits. One area of focus is the interlinking of strategy, business processes and information systems. The knowledge gained will be integrated in teaching material.

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SWISS E-PAYMENT COMPETENCE

The survey was commissioned by **Datatrans AG** in Zurich. By commissioning the survey, Datatrans, the leading Swiss specialist in internet payments (payment service-provider or PSP), wants to improve the visibility of B2C e-commerce and raise awareness and promote discussion of current developments. Datatrans will not be given access to the original data or to individual statements made by the participants in the survey.

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Management Summary

The *E-Commerce Report Switzerland* is a series of surveys on the development of business concepts for selling products and services to private consumers which focuses in particular on the use of networked IT. This report is the result of the ninth comprehensive survey involving 36 potentially dominant vendors in Switzerland's ecommerce market. The results were predominantly derived from the information provided by experts.

Digital transformation in the accommodation business

The debate on developments within the accommodation business has demonstrated how difficult it is for a sector that is predominantly made up of small businesses and in which there is a lack of role models to grasp and respond to the changes associated with the digital transformation. Misconceptions, excessive demands and a lack of willingness to cooperate give no indication as to how the sector could reorientate itself in the short term. Many of these aspects can be applied to other sectors too.

The excessive demands arose from the overlapping of the consequences of the economic crisis in 2008 and 2009 – primarily the strong depreciation of the euro – and the changing of the sales structure with the emergence of online booking platforms around fifteen years ago. There is a kind of love-hate relationship towards the latter: People would like to use them because they are an efficient acquisition tool but do not want to pay the commission charged.

The misconceptions are the result of a lack of understanding of the consequences of the transparency that the Internet has brought to the market on the one

hand. On the other hand, there is a lack of understanding of the fact that the online platforms that have arisen have outclassed direct sales in many situations to such an extent that the question that people should be asking themselves is not how they can avoid cooperation but what is the best form of cooperation to use.

The lack of willingness to cooperate prevents the transparency and coordination of the actors within the sector required in order to develop best practices, achieve efficiency through joint solutions and reduce the risks associated with the unilateral balance of power.

Bischof's motion

Bischof's political motion launched in autumn 2016 is entitled *Prohibition of adhesion contracts imposed by online booking platforms on the hotel industry*. It aims to establish a legal prohibition of restrictive price parity clauses in the contractual relationship between online booking platforms and hotels. It is apparent from the very term *adhesion contracts* that they are not only about objectivity. The term was not clarified during the political debate and has been questionable since mid-2016 when Booking.com – the dominant platform in Switzerland – relaxed its terms and conditions in response to pressure from other European countries.

The motion was driven by the enmity between the accommodation industry and digital platforms. The various opinions of the survey panel members can be summed up by saying that the motive of supporting the pressured sector is shared by many. The Competition Commission is regarded as the right point of contact for assessing disputes on this subject.

Digital transformation in the accommodation business

by Ralf Wölfle and Roland Schegg

Since the outbreak of the global financial and economic crisis in 2008/2009 and the abolition of the minimum exchange rate for the euro in January 2015, the problems within the tourism sector in Switzerland, and especially the hotel industry, have continued to be a hot topic in politics and industry. These include **structural changes**, unfavourable macroeconomic developments and the **consequences of digitisation** – in the form of superior booking platforms. For that reason, the digital transformation in the accommodation business, especially in the hotel industry, is the main focus of this year's E-Commerce Report Switzerland. In addition, besides the long-standing members of the survey panel from the travel industry, the following series of participants in the survey were interviewed on a one-off basis specially on this topic: the country or industry representative from Booking.com International, Kayak Europa, Google Switzerland and Airbnb Germany as well as management members from *hotelleriesuisse* and Switzerland Travel Centre. In addition, Walter Berger, founder of Rebagdata who has many years of experience of the software scene within the hotel industry, gave an interview as part of the research carried out in connection with this survey. The results of the survey below mainly reflect the assessments of these industry experts and in some cases have been interpreted and supplemented by the authors of the survey.

1 Market development during the last 10 years

Since around 1970, the number of overnight stays in Switzerland has remained **constant** at around 35 million **overnight stays grosso modo**. In 2016, there were 35.5 million nights [1]. For a labour-intensive sector with global competition, this is a good performance on the one hand and shows the continued appeal of Switzerland as a travel destination. On the other hand, the travel activity of both Swiss citizens and also worldwide has increased many times over during the last few decades. That means that Switzerland, with its constant number of overnight stays, has **lost a massive share of the market**.

In the 1970s, Switzerland was one of the top five destinations for tourists in the world. Today, it is ranked as an "also-ran".

Thomas Allemann, *hotelleriesuisse*

For decades, the hotel industry in Switzerland was the envy of other countries. It was extremely successful and still is. The revaluation of the Swiss franc has made this destination too expensive for many travellers. Indeed, the foundations of tourism in Switzerland are still excellent but the hotel industry needs to adapt to the new situation.

Peter Verhoeven, *Booking.com*

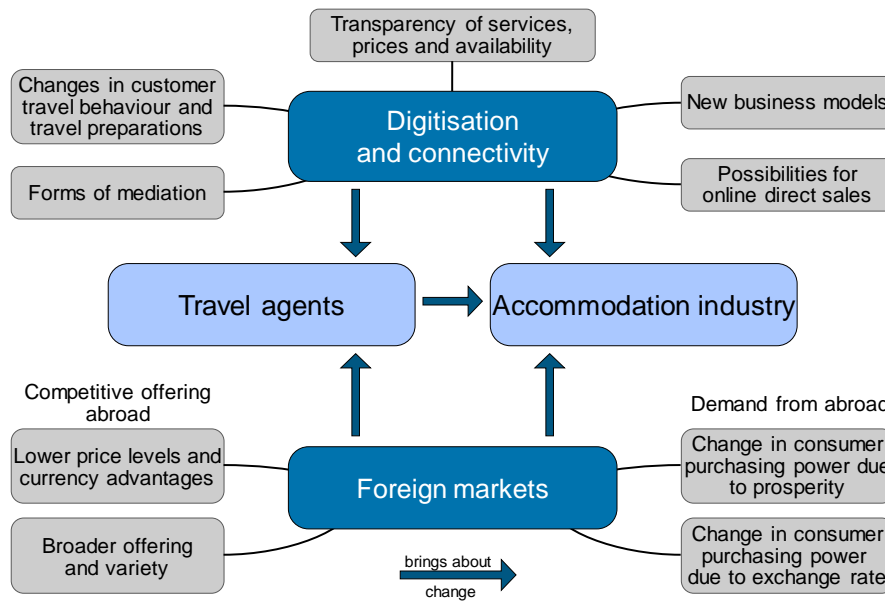
The situation within and the development of the accommodation business was discussed with the participants in the survey and in the majority of the discussions, the keywords "structural changes" were also mentioned. The aspects referred to in the answers given can be divided into three groups:

1. shifts in global travel patterns, the strength of the Swiss franc, the competitiveness of Swiss accommodation providers, investment delays, profitability problems and structural changes in business structure
2. shifts in distribution channels, the development and dominance of online platforms and distribution costs
3. Airbnb as a new business model

If you look for the drivers for the structural changes in the accommodation business in the topics mentioned, you will find that they can be arranged in the form of a diagram that is strikingly similar to the one used to describe the crisis within the traditional distribution chain for consumer goods in Switzerland [2] (Fig. 1). The pressure on the accommodation business to change stems from the topics of *digitisation and connectivity*, *foreign markets* and *travel agents* whereby *travel agents* as part of the sector are themselves exposed to the two above-mentioned drivers. Strictly speaking, there are even more external influencing factors like climate change (important for ski resorts) and the new second home law, for example, that are not dealt with further here. However the development of foreign markets is covered briefly below, on the one hand because the effects of this as a result of increasing digitisation and connectivity in the form of greater transparency and more options for action have increased and on the other hand because they present a picture of the current situation within the industry.

If we compare the statements of the participants in the survey with each other and with other publications on the tourist industry, it is evident that the aspect of **digitisation and connectivity** is perceived and evaluated in very different ways. While the majority of the participants in the survey from the travel industry attach great importance to changes due to digitisation, a few individuals are of the opinion that the structural changes brought about by the establishment of online booking platforms during the last decade are already essentially complete or that innovations like Airbnb are actually

Fig. 1: The accommodation business under pressure to change



nothing new. For some people, it is the **price adjustment crisis** that is the focus of their attention.

Foreign markets

In the ten-year review, **2008 marks a turning point** in the development of the number of overnight stays [1]. It had risen continuously since 2003, peaked in 2008 and gone down after that. The break in trend was triggered by the deterioration in the economy due to the **financial crisis in 2008/2009** that led to a drop in demand in the case of foreign guests in particular. In 2009, 2011 and 2015, the effect was strengthened considerably by **devaluation trends in the case of the euro** against the Swiss franc.

The **effects of changes in exchange rates** on the Swiss hotel industry were examined in 2011 by ETH Zurich's Swiss Institute for Business Cycle Research (KOF) [3]. Shortly before that, the Swiss National Bank (SNB) had decided that it wanted to defend a lower limit of CHF 1.20 per euro for the Swiss franc exchange rate by hook or by crook, after the euro depreciated considerably due to the subprime financial crisis. The results of the survey carried out by KOF show that the demand for hotel services **reacts flexibly for the most part** in relation to the exchange rate. A one percent increase in the real exchange rate results in a long-term drop in demand of more than one percent (flexibility < -1). The adjustment of demand is also only very slow, at a rate of around 25 per cent per quarter (= adjustment coefficient) on average. An exception to this is the city hotel industry in which to date, demand either does not react at all, or only reacts slightly, to changes in exchange rates. On the contrary, the considerable depreciation of the Swiss

franc has significant negative consequences for the Swiss leisure hotel industry.

Travellers from abroad have a **55% share** in overnight stays in Switzerland – the sector is correspondingly strongly affected by currency value shifts. According to KOF, the largest group of foreign tourists – guests from Germany – in particular reacts strongly to changes in interest rates. In contrast, guests from other countries such as France or Northern Europe react more strongly to developments in hotel prices. The demand from guests from the USA only changes at a below-average rate in response to changes in the exchange rate or prices. The drop in the number of guests from Europe has been countered by the strong increase in the number of visitors from China, the Gulf States and India. However, the rise in long-distance travellers has only partially compensated for the drop in the number of travellers from Europe. As a result, the authors of the KOF survey came to the conclusion back in 2011 that a lot of hotel businesses **could end up running at a loss due to the price reductions required**. As the appreciation of the franc has not only continued since then but has also even increased further following the release of the exchange rate limit at the beginning of 2015, a **redimensioning of the hotel sector** in the popular rural tourist regions is in line with the expectations that were seen as **inevitable** back in the survey report from 2011.

In addition, the currency shifts have also had an effect on the **travel behaviour of the Swiss population**. The costs of travelling abroad dropped for many destinations and the trend of falling flight ticket prices that has been going on for decades also contributed towards this. Accordingly, more Swiss citizens are travelling abroad

where their total spending has gone up by around 30% over the past ten years in spite of a drop in prices.

A *Report on the structural situation of tourism in Switzerland by the Swiss Federal Council* from 2013 concludes that the slump in demand in the tourist industry since 2009 has been **primarily due to the economy**, i.e. income- and exchange rate-related. However, the slump in demand has also revealed structural problems [4]. Not to mention the effects of the digital transformation. However insofar as this is meant to have put an increased pressure to adapt on the accommodation business in the 2010s, it would seem that it has hit a **weakened industry**, at least in the rural regions of Switzerland.

Digitisation and price transparency will enable hotels to achieve profitability. Thomas Allemann, hotelleriesuisse

Booking.com gained importance in Switzerland between 2005 and 2008. 2008 also marked the start of the financial crisis and Switzerland became much more expensive for German guests, for example. These two developments overlapped each other. However even if the franc were to get weaker again, it would not affect online sales.

Michael Maeder, Switzerland Travel Centre

2 Online platforms in distribution

At the same time as large E-commerce businesses like Amazon or eBay were being set up, the first online travel agencies (OTAs) also emerged. Both Booking.com and Expedia and HRS have been **online since 1996** while in Switzerland, travel.ch was launched in 2000 [5]. Conflicts between the online platforms and mediated service-providers have accumulated and intensified for about the past eight years. It is not by chance that it was during that period when the online booking platforms passed the 10% share mark in terms of hotel bookings. In Switzerland, this happened in 2009 at the same time as the economic and financial crisis started in the main source markets for tourism in Switzerland. Today, every accommodation provider knows that the advance of OTAs is showing no signs of abating even after they have been going for 20 years. In 2017, the 30% mark was reached. Fig. 2 shows the development of the main groups of distribution channels for the Swiss hotel industry in the last ten years. The information is based on surveys [6] conducted among members of hotelleriesuisse that generate around 80% of the overnight stays in Switzerland. The diagram shows that direct bookings made by contacting the hotel have decreased while online bookings via the external OTA channel have increased. Today, OTAs operate in close collaboration with metasearch engines that are sometimes affiliated companies under the same group umbrella and with Google.

The shift in distribution channels has brought a change in the market structure and is a consequence of the omnipresence of the Internet. Its greatest potential lies in the communication of information and the creation of transparency. However, suppliers soon found out that a presence on the worldwide web alone is nowhere near enough to get yourself noticed by potential customers. In order to exploit the potential more effectively, mediated services are required – and above all, search engines. With the emergence of new intermediaries came new, extremely effective forms of access to customers via the Internet.

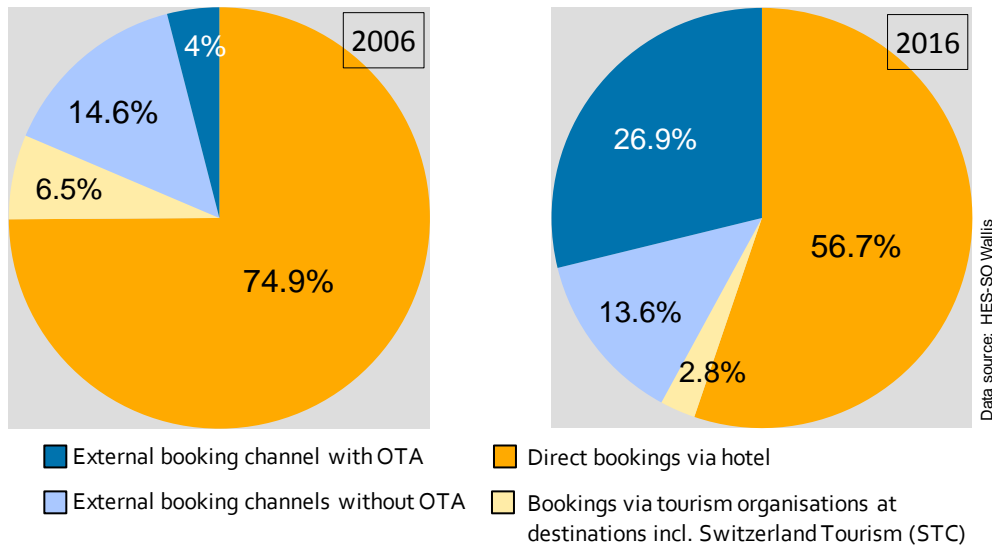
The business models of the new intermediaries are based solely on the processing of data and the operation of IT platforms suitable for that purpose. There are countless different possibilities in terms of the ways that this can be done. Many of them were tried out in start-ups and failed or are now in the service portfolio of the surviving players. As such platforms require high initial investments, but with additional users only marginal differential costs are incurred due to the fact that the value of such a platform increases disproportionately with each additional user, a global **fight to be the biggest** broke out from the very beginning. That fight – generally involving high capital expenditure – has been accompanied by take-overs, investments in additional users and intense performance-based competition. All suppliers hope to be able to establish themselves as the biggest or second biggest supplier within their market segment. They get involved with consumer-friendly offerings in order to build customer ownership on the largest possible scale in terms of loyal regular customers, with the aim of monetising investments in that customer base in the long term in a stabilising market. In order to do that, they use the customer data acquired and continually expand their range of services.

In 2017, the online distribution of accommodation services is **determined by four business models** that are explained in detail below. In Switzerland, two of the four business models are covered by a single supplier (Google and Airbnb) and a third is dominated by one supplier (Booking.com).

2.1 Online travel agencies (OTAs) or online booking platforms

In the mid-1990s, OTAs [7] transferred a well-known business model to the Internet: the operationalisation of travel bookings for a commission fee. That involves providing a binding, external, IT-supported booking process that extend as far as hotels' IT systems with the help of switching systems – so-called channel managers. This business model has been known since the 1970s

Fig. 2: Shift from direct booking channels to external booking channels over the past ten years



from the global distribution systems (GDSs) that emerged from the aviation industry. However, GDSs are closed, incompatible systems, especially for bookings through travel agencies. They were – just like other mainframe systems at that time – inflexible, not user-friendly by today's standards and required proprietary technology. Therefore first of all, OTAs expanded technology by introducing Internet technology. This enabled the GDS functionality to be made available to end customers too in a user-friendly way via browsers. Little by little, OTAs concluded their own contracts with service-providers and built up a database and functionality independent from the GDSs. Today, most OTAs work completely or for the most part independently from the old GDS systems and use a more modern and efficient IT infrastructure in the process. The main OTAs in Switzerland are Booking.com with a market share of around 70% as well as Expedia and HRS. Booking.com's parent company Priceline, the Expedia group and the Chinese supplier Ctrip are ranked one, two and three in the world.

The success of Booking.com is due to the website being user-friendly and making it very easy for people to book a hotel quickly.
Luca Graf, Swiss International Air Lines

The success of OTAs is based on a very simple principle: customers look for something and OTAs give them the answer. However, this simplicity is very difficult to achieve.
Peter Verhoeven, Booking.com

The participants in the survey are agreed on the reasons for the **success of OTAs**: in the case of the end customers, the reasons are the **user-friendliness and simplicity** and in the case of Booking.com, also the **high profile and confidence in the brand**. The following statements on OTAs are primarily oriented towards Booking.com, the dominant platform in Switzerland that

focuses almost exclusively on the accommodation sector. It optimises the functionality for this sector continuously, purchases traffic through a huge number of partnerships and above all also via so-called performance marketing and as a result, achieves **excellent sales results** for the offerings of connected accommodation providers. According to a survey conducted among 459 hoteliers in Germany in July 2016 [8] the increase in capacity utilisation, being easier to find on the Internet, a greater reach and an increase in sales were given as the main reasons for using OTAs as a distribution channel. The commission, the price-performance ratio and the rate parity required were viewed as bad (subsection 4). In total, more than two thirds of the hoteliers surveyed saw great or outstanding added value for their hotel in collaborating with OTAs. These results correspond to a large extent with the answers given by 244 Swiss hotels in a survey conducted in 2010 [9].

The operation and the further development of a platform at the **level of performance of Booking.com** requires more than a computer centre that is continuously whirring away. In order to achieve 900,000 bookings a day, the Dutch company with a total workforce of around 13,000 translates its website into more than forty languages, arranges over 1.2 million active accommodation facilities worldwide and supports them from 187 offices in more than sixty countries [10]. If the figures from parent company Priceline for 2016 are transferred to Booking.com – the proportions should be similar – 35% of turnover is spent on performance marketing alone [11], so-called demand sourcing. From Zurich, 27 employees look after **around 10,000 Swiss accommodation providers from the hotel industry and related businesses**. End customer service is provided 24/7 in more than twenty languages and work is currently

in progress with the aim of supporting direct communication between a Chinese guest and a Swiss country hotel, for example, via chat bots. This will involve the use of artificial intelligence and machine learning for the purpose of providing automatic translations, for example.

In the last few years, Booking.com has built up its offering of accommodation facilities considerably in terms of quantity. Geographic coverage has been increased and other forms of tourist accommodation have been integrated, i.e. besides the classic hotel industry, so-called *alternative types of accommodation*, e.g. holiday apartments have also been added. As far as the accommodation providers are concerned, Booking.com has expanded its services by adding cloud-based software solutions for hotel websites including a booking engine. All these measures serve to realise greater loyalty from customers on both sides of the platform, to collect data from their behaviour and to use those data to further optimise services – on the one hand in respect of their usefulness and on the other hand in respect of optimising its own income.

Booking.com provides hotels with a technology marketing channel at a level of performance that no hotel chain or tourism organisation can achieve.

Peter Verhoeven, Booking.com

These facts that are achieved by other global Internet-only players on a similar scale or are even exceeded have been used here to demonstrate the almost insurmountable challenges that a Swiss organisation would have to overcome in order to be able to achieve a roughly comparable level of performance for Swiss accommodation providers **using its own resources**.

However besides quantitative facts, there are also **attitudes** that characterise these global online-only players, and these could already be applicable. In an interview at the Skift Global Forum on 28.9.2016 in New York [12], Booking.com President and CEO Gillian Tans explained some of these points: for example, Booking.com develops its products not based on assumptions as to what customers might want but rather based on its **knowledge of what customers do actually want**. It gains that knowledge from the data that it collects using numerous different methods. One of these is the method of A/B tests. Booking.com runs in the order of 1000 such A/B tests every day, many of which relate to minor details such as e.g. translation variants. That means that during the regular operation of its website, **1000 different daily experiments** are carried out in order to optimise the customer experience and of course the conversion of visits into bookings. Accordingly, a lot of the innovation at Booking.com is

not in the form of big bang projects but rather small evolutionary steps that have a combined impact.

Booking.com sees itself as a **mobile-first company**. It optimises **cross-channel experiences** and makes sure that users have the same customer experience when making a booking, regardless of the platform that they use. The channel shifts alone require numerous adjustments and transfers. In the past few years, the shift to smartphones has been a key topic. Currently, the focus is on creating the prerequisites for **voice-based interaction**. In addition, according to Tans, customers are increasingly requesting support throughout their trip via **messaging**. This reality is in stark contrast to the perception of individuals from the travel industry in Switzerland who said in their interviews that there is no longer any innovation from OTAs.

In some discussions during the survey, the **willingness to cooperate** of Swiss accommodation providers and tourism organisations that was criticised as being insufficient was an issue. In this context, the pragmatic attitude shown by the Booking.com CEO towards Google during the interview conducted is noteworthy. She was asked about Google being a potential **competitor** of Booking.com since Google had carried out a series of experiments to this end and had also introduced the *Book on Google* function. At the same time, Booking.com pays Google several billion US dollars a year in advertising fees. In her answer, Mrs Tans expressed her understanding for the fact that Google also has to find out how it can improve search results for its users. Booking thinks in terms of partnerships and maintains close relationships with other companies. That is the **best way to achieve optimisation for end customers** and both parties ultimately benefit from this. Peter Verhoeven, Booking.com Managing Director among other things for Europe, gave a very similar opinion during his interview as part of this survey. For example, Booking.com is a big customer of Trivago although Trivago is owned by its main competitor Expedia. The term *partnerships* should not detract from the fact that these business relationships are **clearly commercially structured**. "These are not romantic relationships, they are business relationships", remarks Peter Verhoeven in passing.

The big question is: What does a business need in order to market itself technologically and digitally? Businesses from the hotel industry are too small to be able to do that on their own. Even Booking is too small to acquire all its customers itself: we need partners for that. Which partners should be brought in and at what price are corporate questions to which smart answers need to be found. But without those partners, neither the hotels nor Booking would be able to get to those customers.

Peter Verhoeven, Booking.com

Optimisation for the end customer is at the heart of the efforts of OTAs and something that Booking.com is obviously successful at. It offers interested travellers a broad overview of the offering available, various types of offering, low and high standards of comfort, rooms with and without frills and also, besides the price transparency created anyway, continually changing discount offers or good deals. Comprehensive detailed information, photographs, a map and ratings by other customers are also available on every property. And all this also for exotic destinations in the appropriate language and format for the interested traveller.

The interested traveller is almost pressured into booking by methods professionally matched to behaviour patterns. A visual suggestion of a shortage of offerings is presented. Customers are not required to pay in advance and booking options with generous cancellation conditions are highlighted. Payment is not made until you get to the hotel.

It is exactly the last two points that show that the barriers within the booking process have been dealt with systematically and reduced as much as possible. All things considered, Booking.com – as well as a number of competitors – is an **extremely effective marketing channel** for accommodation providers. It acquires customers all over the world, e.g. including those for whom the hotel is unable to offer convenient direct booking options in respect of language or currency. The OTA saves the provider from having to interact with potential customers at all when they are planning their trip and bears the legal and collection risks in the event of a no-show, for example. However, being relieved of the burden of operational tasks connected with customer enquiries does have a downside for the hotelier: he has no direct contact with the interested traveller. Generally, OTAs hold onto customer details for as long as possible – a common practice in respect of online marketplaces in other industries too and one which is plausible on closer inspection.

The accommodation provider only then pays Booking.com commission for these services if the customer actually turns up and pays. The distribution costs are also variable and completely performance-based. Booking.com uses the so-called **retail model**: with this, the provider sets the end customer sales price itself and adjusts it in line with different market situations at its sole discretion. The marketing service provided by the OTA is paid for on this pricing basis, with an agreed percentage rate for commission. Other OTAs, e.g. Expedia, use the **merchant model**: with this, a net price is agreed that the OTA refunds to the accommodation provider in the case of successful mediation. However in this case, the end customer sales

price is set by the agent and thus control is taken away from the provider. The merchant model is one of the reasons for the range of different prices on different platforms.

2.2 Metasearch engines

The transparency created by the Internet has led to a **new form of complexity**. Indeed today, it is easy to find out what overnight accommodation there is anywhere in the world. But in the case of prices and availabilities, there is more confusion than ever before. According to Booking.com, there may only be just one room still available while on another site there are several available at the same place. The diversity and wide range of prices that are published in different places for the same offering that also change constantly and are also obviously influenced by the place or terminal of the enquirer can only invoke a shaking of heads. The days of the tariff list from the tourist office are long gone. Some travellers have even been disappointed by accommodation providers themselves because they found out that they weren't given the best price when they made a direct booking or even though it was in the low season, when they extended their stay they had to pay more for the extra days than they would have had to pay if they had made the initial booking via an online platform. Such developments have defeated **customers' sense for reasonable prices**. The differences in price practically force cost-conscious customers to use different information channels in order to find the best offer for them.

Metasearch engines – also referred to as metasearchers in jargon – thrive on this feeding ground which, from the customer's perspective, is an industry performance deficit. Well-known names include Trivago, Kayak, Momondo or Tripadvisor. There are two main differences between metasearch engines and OTAs: firstly, you cannot book using a metasearch engine itself, even if it sometimes looks as if you can (the "book-on" functionality is handled by Google, subsection 2.3). Secondly, metasearchers can offer various booking options for the same property, often with different prices. Metasearch engines do not provide any end customer services and do not conduct any transactions with end customers who predominantly remain anonymous to them. They create **maximum transparency** regarding the available offering for the interested traveller and direct him to his actual selected OTA or service-provider if he intends to make a booking. Metasearch engines are a **valuable traffic supplier** for these: interested parties who come to them via this route have already made a selection, know the price and availability has already been clarified. Consequently, the conversion rate is very high and the linking click on the

metasearcher's page is correspondingly valuable. After advice has been provided, a linked OTA then essentially carries out the operational implementation of the booking and the realisation of the contract. Payment for supplying travellers who are ready to make a booking is made in the form of commission that the recipient pays to the metasearchers. Billing is carried out based on CpC (cost per click) or CpA (cost per action). Accordingly, OTAs pass on a high proportion of their own commission to their traffic suppliers.

Because of the considerable importance of metasearch engines for booking platforms as well as the high level of competition, there have been a number of **strategic takeovers** and **consolidations** in the past five years: **Kayak** was acquired by **Priceline**, the parent company of Booking.com, in 2012 and **Momondo** in 2017 while **Trivago** has been majority-owned by **Expedia** since 2013.

There has been an enormous concentration within the distribution chain for hotel rooms, most recently in the case of bed banks. I believe it will be metasearchers next.

Tim Bachmann, Hotelplan Suisse

In order for the business model of a metasearcher to work, it is once again also decisive for it to get as much traffic as possible from people with travel plans. Much of this traffic is also purchased. As a result, there are already three sequential competing stages of distribution. If the interested parties also visit the sites of tourism organisations or travel blogs, for example, while planning their trip, there are even more. All these agents are looking for access to the same customer. The company that takes the greatest pleasure from this is probably Google.

Facebook, Google and KAYAK, for example, are used during various phases of the customer journey.

Julia Stadler Damisch, Kayak Europe

Today, every service-provider sells everything and commercialises his traffic.

Erich Mühlemann, TUI Suisse

Metasearch engines were originally set up in two different forms: **price- and availability-focused** platforms like **Trivago** or **Kayak** and **assessment-focused** platforms like **Tripadvisor**. As far as offerings are concerned, this distinction has become significantly less important. Today, all these platforms have comprehensive information on their properties, including customer evaluations. In addition, the establishment of **TrustYou** has created a provider that specialises in collecting customer assessments and customer feedback and consolidating these data before providing them for integration in third-party platforms, e.g. by swisshotels.com or even Google. In the heads of consumers, the focus on different things lives on for a

while longer: Interested travellers looking for inspiration prefer to start their search by looking at Tripadvisor while others, when searching for the best price, prefer to go to Trivago or Kayak. In any case, a lot of customers use a whole series of platforms when carrying out research so that the question that providers are concerned with is actually in what order and how near to the booking their service is used.

Like OTAs, metasearch engines also require powerful connections to **data suppliers** who can provide them with property master data on the one hand and with up-to-date availability and price data on the other hand at any time. One important data source are OTAs that have an interest in their traffic. For an **accommodation provider** who wants to add his own booking solution to a metasearch engine, there are therefore two questions to be answered: the first is whether he is willing to conclude a contract with the platform in question and to accept the **commission rules**. For it is also the case with metasearch engines that prices are determined by demand. Providers can influence the way in which they are presented and in particular the positioning of their offer by the amount of commission that they are willing to pay. That requires the active management of this channel as well as a certain investment of time and know-how when using appropriate tools. Above all, billing via CpC (**cost per click**) calls for know-how and experience since the actual costs are calculated using a formula containing the three factors of sales price, click price and conversion rate. Billing models via CpA (**cost per action**) are easier as the defined commission is only payable if an actual booking is made. The second question to be answered prior to working with a metasearch engine concerns the **technical connection**. This needs to be very powerful and to fulfil the precise and demanding details prescribed in the data exchange specification. There are only a few hotel systems that fulfil these prerequisites though even then, the connection still requires individual effort from both sides. From a technical point of view, it is therefore more workable to realise the connection via a **channel manager** or a **CRS system** that already has an interface to the relevant metasearch engine. The middleware systems mentioned link hotel booking systems to the IT platforms of multiple distribution partners. Up to now, it has primarily been big hotel chains that have made use of the direct connection option.

Individual hotels can arrange to have a free entry on KAYAK in order to be included in search results. In order to enable prices and availability to be displayed, it is necessary to use external partner platforms like SynXis or Seekda as otherwise the costs involved would be very high.

Julia Stadler Damisch, Kayak Europe



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2.3 Google

Google is synonymous with searching online in Switzerland. But for accommodation facilities – it is the same with flights – metasearch engines for the travel industry have been established and have left Google behind. How did that happen? Google and all long-term users of Google found that a horizontal search did not produce optimum results in all areas. Horizontal versus vertical: what is meant by a **horizontal search engine** is that the search is always set up in the same way, even in different industries and topic areas, and the results are always displayed in the same format – in the case of Google, originally a simple list with matches. Metasearchers realised that this could be improved on and established a **vertical search** for travel-related topics: the entry of search terms is structured, e.g. the date specifications and the presentation of results is much more useful than with a horizontal search. Metasearchers were established because Google's horizontal search in its original form was not providing optimum results for customers when they carried out travel-related searches. The same applies in other markets, e.g. in the case of classifieds where segment-specific vertical platforms have been set up such as jobs.ch, AutoScout24, Homegate, etc..

The realisation that **whole market segments could be lost** for Google if the search is not verticalised at least to some extent is important in order to understand Google's numerous experiments and functional adjustments. In many industries, people have already been racking their brains as to whether Google will want to start selling tickets, become an insurance broker or do many other things one day. None of this has happened yet, Google is still a search engine. However as such, Google is entitled **to remain relevant** in a number of vertical areas too and not to simply leave the field to others. One of the segments with verticalisation is that of travel-related topics where Google is currently gaining ground over metasearch engines.

For many people, Google is simply the starting point for their search. Google is making an effort to respond better to customers' needs and has been developing appropriate offerings.

Tonino Romano, Kuoni Travel

Google is always the big unknown quantity. A lot of industries are worried about Google's potential entry onto the market.

Christof Zogg, SBB

In the current set-up, **Google's vertical solution for hotels** – it is changing all the time – is suitably embedded in the horizontal search engine. The header always looks the same and it is followed, as usual, by a number of paid listings, then a map section and a subtly framed box containing detailed entry options for hotel searches. This is followed by three illustrated hotel offerings, before

organic listings are displayed in the usual format. So the search area vertically tailored to the topic of hotel booking is realised as a plug-in linked to the usual horizontal search. However, one thing is clear: Organic listings, i.e. those where the provider pays nothing for a click, are only displayed further down in the scroll area.

Today, three areas can be distinguished in the Google search for accommodation offerings:

Classic horizontal search

If you enter search terms like *Hotel Lugano* at the start of a search session, the first results page is a classic horizontal page, with just a plug-in for the vertical search area. In the case of popular travel destinations and typical search patterns as in the example given, the ads displayed in the top area and the first organic entries underneath the box will practically always be for travel agents like OTAs or for big hotel chains. On the one hand, these are willing to pay relatively high click costs but at the same time, they are extremely search engine-optimised via their website. They have the tools and the know-how to control their bidding for these ads precisely and in a way that is profitable for them. The ability of these providers to focus on search engine marketing is so **far superior** to that of individual hotels and a lot of hotel chains that it is usually not achievable for the latter to appear on the first results page. However, that only applies under the conditions referred to initially. If search terms contain the name of the hotel or specific characteristics such as e.g. *wheelchair accessible*, search engine marketing and the display of Google Ads can also be **promising** on a small budget.

Online marketing mechanisms are often too much for smaller hotels.

Philipp Ries, Google Switzerland

If you do not optimise your ad campaigns systematically, Google's fees can be crippling.

Kilian Eyholzer, Victorinox

Digression: Brand bidding

One provocative subject in connection with the horizontal search for any brand owner is the topic of **brand bidding**. It is the same in the accommodation industry. This follows from the fact that online advertising strategies are based on search terms used by the searcher which is why advertisers use these as **keywords** in their campaigns. As a rule, the most important keyword for hotels is the name of the hotel. However, OTAs and metasearch engines also bid on the names of the hotels that they market and therefore become their competitors in terms of search engine marketing. As the *costs per click* depend heavily on how much in demand a keyword is with advertisers, the competing distribution channels drive up advertising

costs. The mechanism of action is superbly described and documented in an open letter from the CEO of the German prizeotel Group to Booking.com [13].

The more suppliers use a service like Google Hotels, the more the cost per click will go up.

Katja Altmann, Bedfinder

As understandable as the distress of hoteliers and brand owners on account of brand bidding is, the conflict is ultimately systemic: if you choose a partner to carry out marketing for you, you can hardly stop them from using the instruments that are typically used for this purpose. The European Court of Justice regards the use of foreign brand names as keywords as legitimate. In the consumer goods industry, brand owners have adopted a policy of making arrangements with their trade partners in respect of the division of work connected with online marketing. However, they are tightly limited with regard to this under antitrust law. A brand like Nespresso cannot sell its coffee machines in a store like Manor and then demand that customers who would have searched for a Nespresso machine anyway should not be served. In order to reduce such conflicts, brands are increasingly relying on selective distribution concepts where they can impose more demands on the distribution partner. However by doing so, they are limiting their own coverage themselves. In order to protect their brand value, they accept a reduced quantitative selling volume. Therefore when deciding on whether or not to work with a distribution partner – that also applies to the hotel industry and OTAs – it is **not the individual transaction** that you should compare **but the absolute profit** that would be made by selling the reduced quantity without the distribution partner or by selling the greater quantity with the distribution partner. Since, in the case of a hotel, the variable costs of an additional overnight stay are relatively low, increases in capacity utilisation will have a relatively strong effect on profits.

It is not the margin from the individual order that is decisive but the absolute profit that you come out with at the end.

Bodo Kipper, ricardo.ch

Google Hotel Ads

Google Hotel Ads are the paid listings within the plug-in for the vertical search area. The *Google Hotel Finder* concept no longer uses Google. The business model and functionality of this area correspond to those of a **metasearch engine**. According to an analysis by Fastbooking – a provider of direct booking solutions – there has been significant growth in the traffic that OTAs receive via Google Hotel Ads which means that Google could become a threat to metasearchers like TripAdvisor [14]. The big advantage of Google is that it can position its service on the horizontal Google page. No other metasearcher has the opportunity to do that. Google

Hotel Ads are a **marketing tool** and the content is also integrated in other Google services like Google Maps. In a world of tourism in which travellers use their smartphones throughout their trip as an orientation, information and booking tool, they create further possibilities for interaction.

In this area, there is no such thing as organic listings. Google has a direct or indirect contract with all the hotels that are listed there. An indirect contract may have been concluded with a CRS system or a channel manager. Hotels do not yet have to pay to be listed on this results page. The preliminary step before payment is a window for the individual hotel with one or more booking options. The hotel – or its acting CRS – will only then pay Google if the interested party is forwarded via the Google link to the hotel's website. Billing is based on cost per click. As mentioned in subsection 2.2 in respect of metasearch engines, in the case of Google Hotel Ads too, it is virtually impossible for an individual accommodation provider to realise a connection themselves on account of the technical requirements. In addition, the statements already made regarding the know-how required with regard to bidding also applies here. **The number of preferred listing positions is limited**, especially in an online world that is becoming increasingly dominated by the smartphone. Accordingly, CpC costs vary according to current demand in each case. In principle, the ranking mechanism for Google Hotel Ads is the same as the one used for the horizontal Google search. It is based on an automated bidding procedure in conjunction with the provider's quality characteristics, website and click performance on Google.

Being competent in respect of Google's bidding procedure is indispensable in this business segment. That is the only way that we can limit ourselves to the share of the available volume that will keep us above the profitability threshold in the bidding conversion relationship.

Katja Altmann, Bedfinder

Book on Google

In the USA and the UK, Google has already gone a step further in the case of hotels by doing what metasearch engines like Kayak and Tripadvisor have also done, namely implementing an **embedded booking function**. This gives the impression that Google or the metasearchers have become OTAs because they are processing the booking rather than forwarding it to a booking platform. However, this impression is deceptive. It is indeed correct that there are no links to another website and that the interested traveller does not leave the Google page. However in spite of this, the booking is technically and legally made by the booking platform in the background or the service-provider in the

background. If the customer has a Google account and is logged in, besides the details relating to the chosen accommodation, Google also transfers all the personal details required to make the booking including payment details. The transferring booking machine will then request no information at all or only any details that are still missing which is **very convenient** for the customer. Payment is processed by the transferring system and the confirmation of booking will also be sent by that system. The customer will not usually even be aware of the transfer. He will only see from his receipts that it is not Google or the metasearcher but an OTA or the hotel itself that has become his contractual partner.

The conversion rate in the case of Hotel-Ads is lower than with book-on as it is easier for the customer to disappear if he has to leave the page.

Katja Altmann, Bedfinder

In mobile usage scenarios in particular, it is beneficial if the user can stay within the KAYAK environment and does not have to leave the page. So the seamless booking process enables an optimised user experience to be guaranteed.

Julia Stadler Damisch, Kayak Europe

Google's integration of the booking function into its own website is plausible, especially supposing that one day the keyboard and monitor will be replaced by voice control.

Luca Graf, Swiss International Air Lines

Except for hotels, Google also uses the underlying technology for arranging flights. The **Lufthansa Group** started to sell flights directly via **Google Flights** back in November 2015.

Swiss has had good experiences with Book on Google. But it only makes sense for us in remote distribution markets where we cannot count on customers coming directly to our website.

From **Google's perspective**, *Book on Google* makes sense for a number of reasons: By introducing a function for increasing customer convenience yourself, there is no risk of you falling behind in relation to **competitors**. Customers are given a further incentive to log in to Google which allows further customer data to be collected. The **conversion rate** is increased by the book-on function, especially when smartphones are used. If the keyboard and monitor are replaced by voice control one day, seamless processes could become very important: the competence required for this is being gained already. If Google fails to make the necessary preparations and misses out on the development of solutions for voice control too, then digital assistants like Siri could one day render the current Google search completely obsolete.

From the **hotels' perspective**, Google is an alternative to metasearchers and OTAs, even if the rules are largely the

same. However, one relevant difference could be that to date, Google has shown itself to be less restrictive in respect of the **use of customer data**.

From the **OTAs' perspective**, it can be seen in connection with *Book on Google* that they have indeed remained in business with the processing of the arranged booking but that they have lost visibility. That is a drawback in marketing. There is also the latent worry that one day, Google could take over the booking process itself. No steps such as those mentioned at the start have been taken yet. The participants in the survey do not expect anything to happen any time soon either since Google is probably afraid of the complexity of the process and does not want to set up the associated resources required for providing end customer support.

The competition among the various tourist service-providers and is great enough for KAYAK to also offer the user added value in the future through price transparency and completeness.

Julia Stadler Damisch, Kayak Europe

Up to now, Google has always left operational implementation up to external industry specialists. In the accommodation business, that means OTAs, along with newcomer **Bedfinder** since 2016. This new line of business within the **Hotelplan Group** focuses on the execution of the booking, the processing of payment and the provision of incidental customer support during the performance of the contract. It fills the exact functional gap that exists between a metasearch engine and an OTA. While Bedfinder does process bookings, it is not entirely a classic OTA as it does not take any measures in order to win traffic itself. The first real proving ground for Bedfinder is *Book on Google* in the USA and UK; other countries are to follow. What is impressive about the innovation of Bedfinder within the Hotelplan Group is that the services to be provided are built on existing competences and resources to a large extent: Hotelplan can process bookings and payments, knows its way around end customer support and is used to working with service-providers all over the world, operating IT systems and managing precise data flows. The business is automated as much as possible and comes out with very low margins, as virtually no end customer marketing is carried out.

Bedfinder was set up in 2016 in order to internationalise Hotelplan's business via forward-looking distribution channels.

We are not presuming that Bedfinder will become a second Booking.com. But the niche that we are economically able to occupy thanks to our efficient processes and systems is of a considerable size in terms of the dimensions of a Hotelplan Group company.

Katja Altmann, Bedfinder



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2.4 Airbnb

During the discussion of the development of the overnight accommodation market, there was only one topic that was regarded by the majority of the participants in the survey as providing **new impetus** for the accommodation business: Airbnb. It is nowhere near as easy to give the innovation a name. For if travellers find and book their accommodation via an online platform, we normally think of an OTA. However, the fact is that Airbnb has developed completely independently from the existing industry structures. There are no links to the OTA/metasearch engine/Google ecosystem or to the traditional world of GDSs. Within just a few years, Airbnb has succeeded in bringing together providers and consumers worldwide on a large scale and directly, via a single platform. Airbnb has succeeded in **dumping the complexity of the whole industry** and redeveloping the business itself.

The reason why so many people use Airbnb is the search for authenticity and not mass tourism.

Alexander Schwarz, Airbnb

As far as the experts from the travel sector interviewed are concerned, Airbnb has long since matured into an important player within the industry. The ideally semi-professional impression of a sharing economy has been completely overshadowed by the success story of a highly capitalised, fast-growing and well-run global business. Airbnb has unsettled the industry but is also admired.

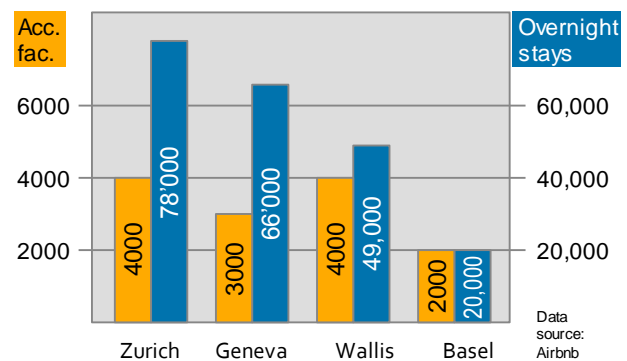
Airbnb in Switzerland

In Switzerland, the offerings and use of Airbnb have grown at a very fast rate. According to Airbnb, one million trips were booked from Switzerland via Airbnb in 2016. According to them, there were 23,000 active accommodation facilities in Switzerland in 2016 that registered a total of **447,000 guest bookings** in 2016. Accommodation can be in the form of individual rooms, whole apartments, houses or even tree houses or castles. Most of the accommodation is not available all year round because people live there themselves. *Active* therefore refers to accommodation that is not necessarily *available*. Fig. 3 shows the figures for major destinations.

The Wallis Tourism Observatory has monitored the development of Airbnb in Switzerland since 2014 and to that end has recorded Airbnb properties in more than 4500 places which covers around 80% of the offering. The latest survey from January 2017 shows that the number of beds offered via Airbnb has almost tripled in the last two years to around 64,000 [15]. By comparison, the number of beds offered by the hotel industry in Switzerland is just under 260,000. However when

comparing the two figures, it should be noted that a lot of Airbnb beds are not continuously available.

Fig. 3: Airbnb active accommodation facilities and guest bookings in 2016



In rural areas, Airbnb has only brought about a shift in the existing offering of guest rooms and holiday apartments from traditional providers to Airbnb, explains Thomas Allemann from hotelleriesuisse. However in the cities, new accommodation facilities have sprung up that are regarded by some participants in the survey as potential competition for the hotel industry. Conversely, opportunities have also opened up for buildings whose offering has found a ready market among Airbnb's clientele. One in every seven hotel businesses in Switzerland has already offered rooms on Airbnb at least once [16].

In the cities, Airbnb is a catalyst for an emerging offering that is being presented in an increasingly professional way and is getting more and more like the hotel industry.

Thomas Allemann, hotelleriesuisse

Airbnb has developed a potential that could still change the hotel market.

Michael Maeder, Switzerland Travel Centre

I can well imagine Airbnb also becoming another channel for hotels.

Erich Mühlemann, TUI Suisse

Sharing

In spite of growth, sharing remains at the core of the brand identity. Airbnb – airbed and breakfast – is about **home sharing**. In your student days, you would have asked: "Can I crash at your house?" – and a lot of people have found out first-hand that you can have fascinating encounters in such situations. As you don't remain twenty years old your whole life, the airbed was stowed away in the basement and sharing became a thing of the past. Alexander Schwarz of Airbnb sums up the mission of Airbnb as follows:

Airbnb is a marketplace for travel experiences. At the heart of our platform is the community – the hosts and guests. Hosts offer guests from all over the world a place to stay while they themselves are either away or there too. The company's mission is to make people around the world feel like they can belong anywhere.

Alexander Schwarz, Airbnb

Therefore **sharing things** has become important. Sharing means using existing resources more efficiently. In his interview, Mr Schwarz talks about how much less water and energy are used and greenhouse gases produced as a result of private subletting compared to a hotel business. Airbnb sees its mission as being to help develop solutions to macroeconomic challenges that arise in the course of increasing urbanisation. From Airbnb's perspective, all these **factual aspects** are important but what is even more important is the **personal experience**, the authenticity of the places that you visit and the encounters that you can have there. **It's about sharing living spaces and sharing experiences.** Airbnb is currently building up its offering based on this customer focus and has added *discoveries* to it. These include excursions or other activities that are designed and led by local hosts. So the basic understanding of travel and the approach of Airbnb are fundamentally different to the principles on which the partially **industrially organised tourist industry** is based. Admittedly, Airbnb is ultimately also about letting and charging for a bed although Airbnb only sees it as the infrastructure for the overarching travel experience.

Mass tourism has always masked personal connections – and yet that is the essence of hospitality. In particular, smaller commercial providers, e.g. family businesses or farms, want to go back to this. They also use Airbnb as a marketing channel.

Alexander Schwarz, Airbnb

Will Airbnb be able to maintain its approach with the tremendous growth and professionalisation observed on the supply side? This question was asked by a number of participants in the survey, in some cases with blatant scepticism. "What happens when the story is over and there is only one OTA left?" asked one interlocutor.

On an equal footing

Until now, a meeting between guest and host on an equal footing has been a key feature of Airbnb's requirements. This is reflected in various ways. Firstly, central to these is the Airbnb **IT platform as a confidence-building element**. This is achieved through Airbnb's knowledge of the identity of both parties, information and in particular assessments relating to them and the integrated Messenger function via which both parties can also get to know each other even before the stay. The platform creates the trust that is required when someone wants to stay in a foreign country at the home of a host who speaks a foreign language and conversely when the host wants to take in such a guest.

Airbnb is characterised by the fact that both guest and host have to find out about each other and be assessed by the other. However, it is at this point that a **conflict of interest** arises: The concept of mutual assessment and

case-by-case acceptance or rejection conflicts with the guests' need to get a decision in response to their enquiry as soon as possible. At the end of June 2016, only 14% of the properties in Switzerland could be booked directly [17]. There is a second point when the attitude of the meeting on an equal footing becomes clear: the **payment of commission**. With Airbnb, the system is set up in such a way that both the host and the guest pay commission, with the guest even paying higher commission than the host. In the case of OTAs, only the host pays commission.

The professionalisation of suppliers

It is impossible to ignore the fact that on the supply side, Airbnb has been professionalising its offering – not just because airbeds have been replaced by proper beds. There are multiple drivers for this: first and foremost, the **feedback** given by other travellers on accommodation is one of the most important factors for success for providers. Authentic or not, a private host will soon see that in order to succeed, he must achieve a constantly high level of quality. As a consequence, an ambitious provider will think about, continuously maintain and improve the identity-forming features of his accommodation and thus assume the characteristics of acting professionally. Because this is by no means trivial, **professional service-providers** that take on the associated tasks of lessors have already established themselves. Secondly, Airbnb itself is committed to providing a high level of quality. On the one hand, it provides quite detailed information on hospitality standards subject to penalties or tips on the page *How to be a good host* and on the other hand, it grants **Superhost status** automatically when defined performance indicators are achieved. This has advantages in respect of the displaying of an offering on the hit list.

The third factor that has led to professionalisation of the offering via Airbnb is the appeal of the distribution channel for providers who are professional accommodation businesses. Airbnb is **open to professional offerings** as long as they offer the Airbnb community **unique accommodation** and **personal hospitality**. A provider of *farm holidays* will probably be able to meet the requirements easily while a city hotel with 25 identical rooms (maximum number) is more likely to struggle to do so. If your own portfolio fits, Airbnb can be very appealing as an agent, especially since as a rule, the assignable agency commission is 3%, with very restrictive cancellation conditions of up to 5%. That's a quarter of the minimum commission from Booking.com. "If the coverage is right, then everything is right", said one participant in the survey.

Fig. 4: Not just homesharing

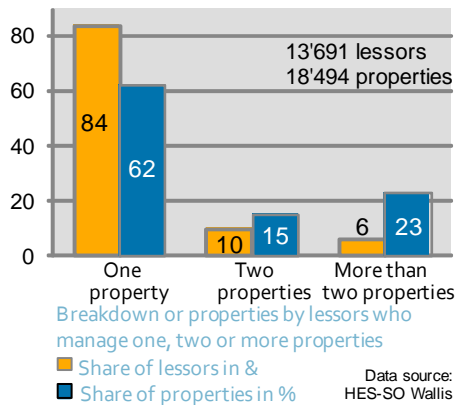


Fig. 4 shows that in Switzerland, in mid-2016 already 6% of lessors – in absolute numbers 773 – were offering more than two properties on Airbnb, meaning that they should probably be regarded as commercial lessors [18]. According to current observations, that share has grown considerably. The Wallis Tourism Observatory also sees the fact that around two thirds of all Airbnb properties in Switzerland are whole apartments or chalets – especially in the classic Alpine holiday regions – as an indicator of the **professionalisation of lessors** [19]. Even though the properties are individually owned, a lot of them are managed by professional letting agencies.

Whether an offering suits Airbnb or not, it is not us but the guests who decide and assess accommodation in a sophisticated assessment system and consequently can influence whether accommodation gets further bookings in the future. Airbnb provides the platform, i.e. the online marketplace, where hosts and guests can meet. In addition, Airbnb protects hosts and guests by processing all transactions via its secure payment platform.

Alexander Schwarz, Airbnb

The more **personal** and **less industrialised** an accommodation offering is, the more suitable it is for Airbnb. However that also means that the expected personal communication, e.g. via **Airbnb Messenger** can be carried out with short response times in accordance with current requirements and that the manual management of availabilities on the platform will be carried out accurately in order to avoid bookings that cannot be fulfilled. The possibilities for making IT connections to the Airbnb platform are still very much in their infancy and to start with, Airbnb in Switzerland will only be setting them up for holiday apartments. As far as this is concerned, the profile of Airbnb also differs from agency platforms like metasearch engines or OTAs. That could benefit small businesses in particular.

The social debate

The social debate is primarily about the topics of *misuse of living space* and *unfair competition*. Airbnb is trying to behave in a constructive and dialogue-oriented manner

with regard to this macroeconomic perspective. Also, most Swiss institutions demonstrate a critical but basically open-minded attitude towards Airbnb. For example, in 2016 *hotelleriesuisse* published a leaflet for hoteliers [20] containing advantages and disadvantages as well as a number of tips for creating a presence on Airbnb. *hotelleriesuisse* encourages its members to be open-minded towards Airbnb. New knowledge could be acquired and interesting business opportunities may open up [21].

We have had very positive feedback from various players within the Swiss tourism industry who are happy that Airbnb has expanded the existing market, brought in additional guests and also rates quality above price.

Alexander Schwarz, Airbnb

"What I love about Airbnb is that it forms partnerships and tries to understand how individual countries and cultures function. It tries to actively participate in the relevant systems," said one observer. That is definitely a wise move. Airbnb comes up against political pressure all over the world and there have also been a number of political initiatives in Switzerland. According to Alexander Schwarz, Airbnb in Switzerland is engaged in a constant **exchange with political representatives** at a federal, cantonal and municipal level. This involves early meetings, mutual clarification and joint solutions to macroeconomic trends. Airbnb can and wants to contribute towards such solutions.

In the case of a topic such as the collection of visitors' taxes and payment to the relevant city/region, by its own account Airbnb advocates simple solutions and tries to facilitate the implementation thereof technologically via its platform. Airbnb is already involved in this type of collaboration worldwide with over 200 cities.

It is clear to us that both commercial and also private hosts must abide by local regulations: We point this out explicitly on our platform.

Alexander Schwarz, Airbnb

As far as the topic of **unfair competition** is concerned, within the group of participants in the survey the opinion clearly prevails that it should be eliminated – ideally in conjunction with the review and adjustment of existing regulations in order to reduce them to what is necessary. One interlocutor sees it as part of the *story* of Airbnb that it publicly rubs people up the wrong way, but for the benefit of consumers. By all appearances, it is to be expected in Switzerland that statutory regulations and the practices of regional authorities and lessors will be adapted in line with the changing situation and become more and more similar to each other. In five years, this area of conflict in Switzerland could be largely eliminated.

To date, the topic of *misuse of living space* due to Airbnb has been less of an issue in Switzerland but remains a hot topic in some metropolitan regions worldwide. A number of big cities have already taken countermeasures. The range of attitudes towards this is considerable and various cities have adopted different positions on the subject. Consequently, it is to be expected that locally in the future, the conditions for leaving living space in the sharing model will differ even more widely.

3 Accommodation providers and their agents

In order to reflect the distribution situation of accommodation providers, it makes sense to first of all keep in mind that the businesses at the heart of their business model are **service-providers**. In the self-perception of many hosts, marketing is a secondary task that is not necessarily carried out with passion and diligently gained competence. This set-up is typical of business areas in which a service is closely linked to the location. In the case of hairdressers, tradesmen, public transport and accommodation providers, local demand per se is already there according to the character of the location in each case. In the past, a hotelier who looked after the act of hosting first and foremost, found a good price-performance ratio in the process and made sure that he could be perceived passively often fulfilled his marketing duties for the most part – at least within the national market. After all, the marketing of the location in itself has been delegated to non-commercial, national, regional and local tourism marketing organisations for more than fifty years. As recently as the turn of the millennium, the hotel industry in Switzerland was receiving around **three quarters of bookings directly** with this set-up – the verb conveys the passive form of marketing at that time.

Generally speaking, the specific configuration of a location is linked to local, intermittent demand. As a hotel business has high fixed costs and, as is well-known, accommodation services are a **commodity that expires on a daily basis**, two approaches have been developed for selling excess capacity. One approach involves selling at considerably reduced tariffs to professional customers with regular requirements. Framework contracts are typically concluded with these annually and in these, the customer in turn is given a reduced price that is frequently 20% or more for a defined volume. The other approach involves the use of traditional external distribution channels that were established decades ago. These distribution channels are independent business models which focus on selling accommodation services. The distribution costs associated with these start at around 12% and are frequently much higher.

A number of internal and traditional external distribution channels are covered below. The modern external distribution channels in the form of various types of online platform have already been described in subsection 2. Fig. 5 ranks all the major distribution channels in an overview in order of quantitative significance and their development trend. The graph shows the development during the 2002-2016 period in multi-year increments. The data are based on the survey regularly carried out on behalf of *hotelleriesuisse* since 2002 by the Institute of Tourism at the Wallis University of Applied Sciences (HES-SO Wallis). The data are freely available on the eTourism Monitor website [22]. In interpreting these, it should be noted that the data have come exclusively from members of *hotelleriesuisse*. The association of around 2000 hotel members represents the hotel and accommodation industry in Switzerland. The businesses classified by *hotelleriesuisse* represent 65% of the hotel beds in Switzerland and generate 75% of overnight stays [23]. The series of data is characterised by its longevity and detailed analysis of the distribution situation of hotels so that it provides a sound basis for the trend monitoring which is the focus of this survey.

Internal distribution channels

Before we look at external distribution channels, here are a number of observations on the development of internal distribution channels: Between 2002 and 2016, the **importance** of traditional direct distribution channels – telephone, fax, post and walk-ins – **almost halved**, meaning that they also lost their leading position. In fact from today's perspective, there are major disadvantages for guests associated with the telephone and walk-in approaches: Telephone calls sometimes require a number of attempts and can be a challenge in destination regions where a different language is spoken or if they are in a different time zone. The same as with walk-ins, direct contact makes it difficult to assess and weigh up the offering in peace. Anyone who is not skilled at negotiating must accept that they are probably not going to get the best price.

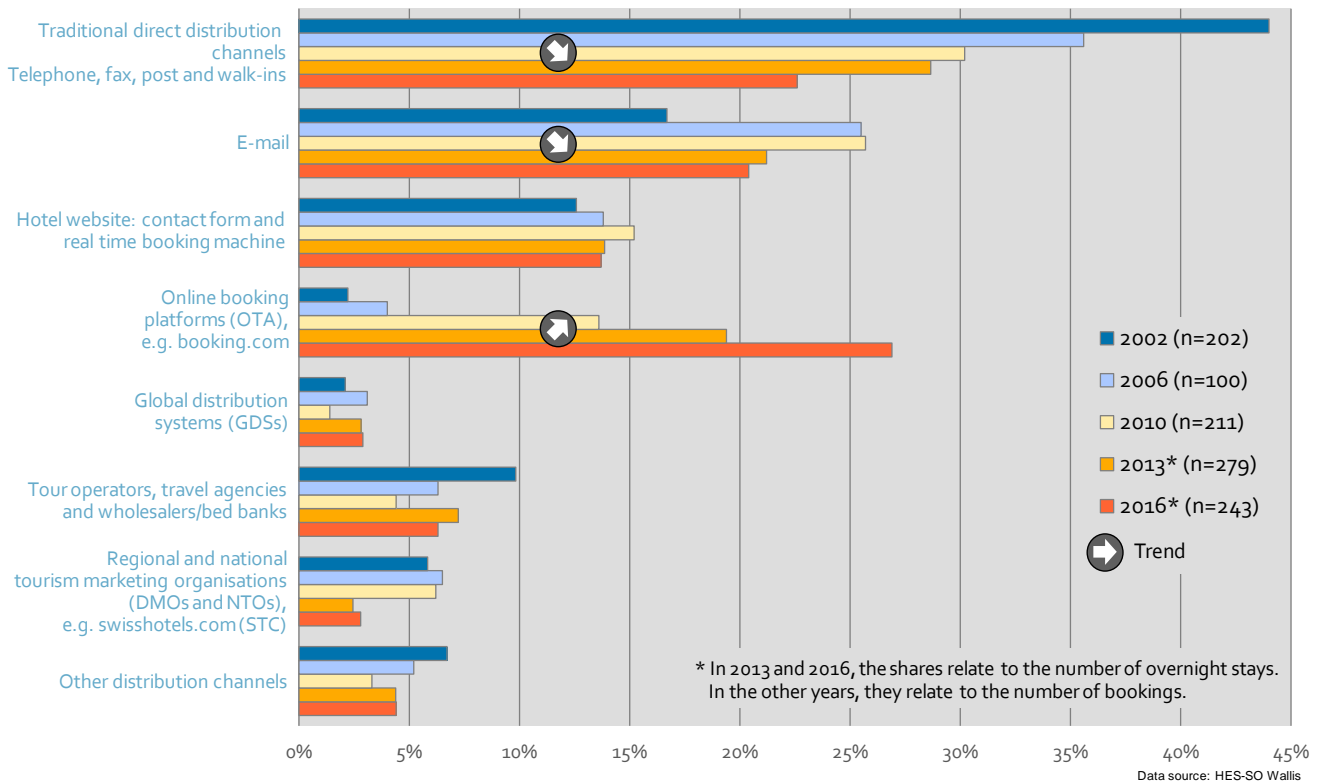
Most hotels are not set up for online direct sales at all and in some cases, their booking machines are awful. In addition, there is always that awful feeling deep down that when you booked, you probably didn't get the best price. That is why a best price guarantee is needed. Luca Graf, Swiss International Air Lines

Hotels were used to having pricing authority and have benefited from the market's lack of transparency for a long time.

Michael Maeder, Switzerland Travel Centre

Communication via e-mail is asynchronous and allows the interested traveller to be in control of what he wants to communicate when and with whom and what decisions to make. The disadvantage is that there is no direct feedback regarding availability and price and the

Fig. 5: Development of the shares of various distribution channels for hotels from 2002 to 2016



person's decision-making process will also have to be interrupted. The increase and decrease in e-mail communication relating to hotel bookings could reflect the development of the competence of both guests and online travel platforms in respect of Internet usage. While consumers became increasingly familiar with how to use the Internet and the offerings via online platforms wider, more sophisticated and also more visible due to strong advertising, this meant that the decrease in the use of e-mail which started around 2010 coincided with the dramatic increase in the importance of OTAs from 2010. The apparent consistency in the importance of the **hotel website** is misleading because in the series of surveys, the data for **contact form enquiries** and binding **real-time online bookings** are not available separately for the whole time series. In 2016, real-time booking machines already have a share of two thirds at this point while in 2002, there were still hardly any real-time booking machines on hotel websites.

3.1 Global distribution systems (GDS)

Global distribution systems (GDSs) – namely Amadeus, Sabre and Travelport, the latter resulting from the merger of Galileo and Worldspan – play an important role for the industry, even if this is not reflected in the number of bookings. Mention has already been made of the emergence of GDS systems from the 1970s in the introduction to subsection 2.1 in order to show the qualitative difference from OTAs from the mid-1990s.

GDS systems were developed **for professional users**, above all for travel agencies. It will soon be 30 years since the start of the construction of a diverse and complex IT landscape around the systems worldwide, with specialised platforms and service-providers. These peripheral systems include the hotel database Pegasus and the computer reservation systems group (CRS), middleware for linking hotel management software to the world of GDSs. An ecosystem was created that integrates real-time bookings for various types of tourist services in a wide variety of professional travel planning and travel distribution solutions. This ecosystem created the quantitative basis for a successful network by means of various agreements – including fixed price agreements – and through payment mechanisms on the one hand but also lock-in effects due to strong tie-ins on the other hand. The GDS world's database of bookable tourist services of all kinds is the most comprehensive in the world and it is considered as a single entity here in order to make things simple. The tie-ins have operated to date in conjunction with the continued business that is lucrative for the oligopoly of the operators, enabling the slow technology viewed by many as outdated to continue to be used. In contrast to the fast-changing online world, the world of GDSs is stable and predictable which is an important aspect for many people. GDS systems are still used **worldwide** in the vast majority of **travel agencies**. In addition, they are of considerable importance in the world of the **professional travel organisation** and for large companies. A hotel that is

connected to the infrastructure of the GDS world can be booked immediately in real time by more than 150,000 travel agencies worldwide. The hotel must also reckon on costs, incl. those for the technical connection required, ranging from 17% to 22% on the revenue per room.

Naturally, the operators of GDS systems have not failed to notice the developments in technology that have been made, with open systems and the expansion of the Internet from the 1990s. Besides maintaining the old world of GDSs as a cash cow, they have reacted by taking two measures: firstly, further systems were created, enabling their own huge catalogue of services to be accessible to and bookable by Internet platforms too. For this reason, in the early years OTAs predominantly accessed the inventory of GDS systems until, little by little, they had set up their own contracts and technical connections to service-providers using newer technology. In spite of this, the **worlds of GDSs and OTAs are still in existence today**. Consequently, a hotelier that does not give an allocation to an OTA but still has an open allocation in the world of GDSs can receive bookings from the OTA. However, billing is then carried out in accordance with the rules for GDSs. The second reaction to the shift in technology saw the parent companies of the GDS systems acquiring interests in the fast-growing OTAs or even taking them over completely. Today, on a financial level, the two otherwise very different worlds are closely linked.

3.2 Tour operators and wholesalers

The next group in Fig. 5 consists of tour operators, travel agencies and wholesalers. The business model of tour operators and travel agencies focuses on private and business travellers while that of wholesalers or bed banks focuses on other resellers of travel services. The traditional collaboration between a tour operator such as Kuoni, Hotelplan or TUI and an accommodation provider consisted in annual agreements being made regarding the purchase of an **allocated volume of accommodation capacity** at a reduced price. Various sources estimate the price reduction as being at around 25% on the regular room price for many years although it is negotiated individually in each case. The accommodation provider thereby secures basic capacity utilisation while the tour operator secures capacity for his own offerings. As the allocations made are reserved up to a certain day before the date of arrival for the operator, e.g. up to seven days before arrival, and the notification of the hotel regarding the actual guests can take any form, the operational collaboration is very simple and does not require an IT connection. Allocations that were too rigid proved to be problematic as the market became more and more volatile. Consequently, the operators' obligations

relating to the purchase of allocations became more and more non-binding. Sometimes multiple allocations running in parallel and with different levels of obligation are agreed with the same hotelier. **A lower level of obligation** undermines the actual purpose of the contract from the hotelier's perspective so that with such agreements, only smaller price reductions are granted. One participant in the survey is of the opinion that the emergence of OTAs as attractive alternative distribution channels for hotels is the reason for hotels offering lesser price reductions.

For a long time, the hotel discounts for tour operators were set at at least 25% while today, they are at or even below 20%. For me, that indicates falling distribution costs.

Tim Bachmann, Hotelplan Suisse

The wide variety of distribution channels has resulted in tour operators becoming less important as distribution partners for hotels.

Erich Mühlemann, TUI Schweiz

Also in traditional travel agency operations, e.g. in the case of tour operators, the costs are often considerably more than 20% of the room price.

Michael Maeder, Switzerland Travel Centre

But for tour operators too, the significance of allocation agreements with hotels has decreased since **wholesalers** are increasingly operating online systems called **bed banks**, e.g. Hotelbeds or Kuoni GTA. These allow tour operators' systems dynamic access to their pool of free bed capacities. Bed banks are an alternative source of accommodation capacity to GDS systems. Wholesalers, like tour operators, originally specialised in purchasing room allocations that they sold on to other resellers. A price reduction of 50% was the norm. However in connection with bed banks, a wholesaler no longer has to purchase fixed allocations in order to be able to operate his business and can search dynamically for free capacities based on a current requirement by means of IT connections and framework contracts and then sell them on. With this largely automatable business, price reductions have grown closer to those in respect of tour operators. In spite of this, in the case of two-stage reselling, significant reductions of up to 50% can be reckoned on. However such significant price reductions were only agreed for off-peak periods and large quantities. They are still **better** for the accommodation provider than **letting the room capacity go unused**: if, for example, the variable costs of a hotel account for 23% of the room price, if the room is booked at 50% of the regular price, at least a small contribution can be made towards covering the fixed costs [24].

In destinations with a short season, it is not unusual for hotels to sell almost half the number of nights below their full cost.

Tim Bachmann, Hotelplan Suisse

3.3 Regional and national tourism marketing organisations

Local, regional and national tourism marketing organisations (LTOs, RTOs and NTOs) have obviously been unable to utilise the shifts in the distribution channels in a way that would bring their members more bookings. In 2015 and 2016, their share of bookings was still below 3%. At least in the case of *myswitzerland.com*, the online platform of Switzerland Tourism, this was not because it had no traffic on its website. The global traffic is impressive and uniquely for the tourism organisations of a country, explains one participant in the survey. However, the traffic conversion rate into bookings is poor. The behaviour of interested travellers is testimony to the competence of the portals to promote and advertise their region but they then only achieve very low levels of sales. That shows that **traffic alone is not sufficient to guarantee success in online distribution** – the lack of affordable traffic is frequently given as a reason for poor sales success. Marketing is too limited to the service and does not focus enough on providing the guest with a particularly attractive price-performance ratio at any particular moment for a particular reason.

As with other industry organisations, the essence of the Swiss tourism and industry organisations is to be **provider-driven**. Many of them are not commercially oriented and also have other tasks, besides marketing, which are partially rooted in the law such as the representation of interests, the operation of tourist information offices or customer entertainment. To a great extent, they are financed by state funding, visitors' taxes, hotel contributions, etc.. In contrast, the industry contenders – OTAs, metasearch engines, Google or Airbnb – are exclusively **customer-driven** and measure the suitability of virtually all their activities based on their contribution to conversion, i.e. by business transactions (subsection 2.1). These players would not, for example, realise a shopping cart solution for the bundled procurement of services offered by various providers from a region, such as the one currently realised or aimed at by many DMOs if they had not already found out, by carrying out tests, as to whether and how these precisely fit in with actual customer requirements and that they lead to bookings. The contenders are dedicating themselves more consistently and ruthlessly to customer interests. It is also easier for them to do so inasmuch as they don't have to think about the capacity of hotels or mountain railways. In particular, customer interests also include the **optimum price** for the customer at that particular time. Online platforms are often accused of having an alleged price orientation. However in reality, this accusation does not go far enough. The price orientation of consumers and consequently online service-providers is the result of

providers and DMOs neglecting this side of the price-performance ratio in marketing. All the qualities of a travel destination are provided for the consumer – but the interested traveller has to find out for himself whether the provider can also offer a good price-performance ratio. If he wants to clarify that for himself, he is accused of price orientation. That is where metasearch engines and OTAs come in. They see price not only from the perspective of providers and create transparency that customers obviously appreciate. The competition between the various distribution channels also hinges on the question as to who reflects **the customer requirement as a whole** best, which includes providing a good price.

Excessive list prices, such as those that are sometimes shown in the rooms, are no longer feasible in the mobile age.

Michael Maeder, Switzerland Travel Centre

A pricing policy that is not very customer-focused and limited willingness to invest in distribution may be the reasons why the booking platform for the industry **swisshotels.com**, an OTA, is also a niche business. The platform is operated by Switzerland Travel Centre (STC) which is a subsidiary of *hotelleriesuisse*, SBB and Switzerland Tourism. At least updating of the platform led to a significant increase in bookings from 2015 to 2016.

swisshotels.com is a toothless tiger.

Tim Bachmann, *Hotelplan Suisse*

Feedback from participants in the survey and their own tests have shown that as a customer, you can hardly ever get better conditions on this platform, and often you get worse ones, than you get from global OTAs. The combination of a weak brand, insufficient funds for marketing and, generally speaking, poorer conditions is not conducive to success. It also doesn't help that the commission for hotels on this platform is only 10% which, with the technical connection, means total costs of around 12%. "You **can't just set up a portal** and think that everyone is going to start using it and making bookings, it doesn't work like that," explains one participant in the survey. It's a vicious circle: The platform does not achieve any bookings, the hotelier makes less of an effort to manage the content on the platform, the perception of competence decreases and the willingness to get involved on and with that platform as an attractive distribution channel also declines. It is a contradiction: on the one hand, you have the industry moaning about being dependent on overpowering global players and at the mercy of their business terms and conditions while on the other hand, to date they have not managed to introduce their own instruments successfully at least in niche areas (subsection 3.5).

swisshotels.com cannot hold its own against competition like Booking & Co because it lacks marketing power and because hotels don't offer their best price there.

Thomas Allemann, hotelleriesuisse

A marketing campaign that is aimed at getting American consumers to book via swisshotels.com instead of booking.com would be far too costly.

Erich Mühlemann, TUI Schweiz

With its interest in STC, hotelleriesuisse has acquired a real spearhead. However, the industry does not know how to attach a pole to it and has been using it like a fishing net – **passively instead of actively**. A spear represents targeted work while a net covers a whole area. Not only is there no big marketing budget like that of the global platforms which is frequently given as a reason for this but also there is no hunting instinct or systematic sounding out and determined seizing of market opportunities. It should be possible to achieve significance at least for the citizens of Switzerland, they still have a 45% share of the overnight stays in Switzerland. By founding Bedfinder, the Hotelplan Group has demonstrated that it is still possible for international opportunities to keep arising too. In this case, using marketable technology and without enormous amounts of start-up funding or a big marketing budget, a new business area has been set up that primarily ties up with the existing competences of the medium-sized Swiss company (subsection 2.3).

The attitude of the players is to be addressed once more, as it was in the previous section and also in subsection 2.1 on the attitudes of Booking.com. As described, Booking.com is not afraid of cooperating with its competitors and purchasing traffic from them if it will lead to more bookings. In contrast, in the conversations with the participants in the survey from the travel industry the point was often raised that **there is not enough cooperation within the industry**, that DMOs also often do their own thing and that there is no determined, concerted action to resolve distribution-related challenges. "Destination management in Switzerland as a whole could be more effective if the numerous organisations cooperated more and used the same software tools", says Walter Berger of rebagdata, for example. He also criticises the fact that the local tourist offices use a lot of different booking solutions rather than STC's industry solution. Thus **public money is being carved up**: "Can we still afford such additional costs in tourism?"

The hotel industry needs a joint strategy in order to achieve a counterbalance. With their solo efforts and weak actions, hotels and destinations are playing into the hands of the global players.

Luca Graf, Swiss International Air Lines

Hoteliers should pull together and oppose adhesion contracts. That has to be the answer, not a law.

Marcel Schaniel, Möbel Pfister

A lot of hotels are caught up in local competitive thinking and do not understand that the competition is on a national scale in a much wider context.

Philipp Ries, Google Switzerland

Too many destinations believe that they must operate their own system – and then there is no money for online marketing.

Michael Maeder, Switzerland Travel Centre

The picture of the industry that is created from the assessments of the participants in the survey shows **three deficits**:

- a lack of cooperation, as well as a lack of standardisation and shared infrastructures, for example
- a lack of online and marketing competence among players, first and foremost among the majority of accommodation providers themselves
- a lack of management, moderation and cross-organisationally coordinated action with scheduled measurable goals, suitable budgets and decision-making structures

What are the three topics in the digital sector that every hotelier should have under control? I believe that hoteliers need even better support in that respect.

Philipp Ries, Google Switzerland

Naturally, these are not problems that are specific to Switzerland but the consequence of a small-scale industry with predominantly owner-managed SME companies. Similar situations can be seen in neighbouring countries. However, Switzerland seems to have been worse affected in this decade: on the one hand because for a long time, the pricing pressure was less than elsewhere and on the other hand because the current structural changes in distribution overlap with the simultaneous effects of the strong devaluation of the euro. As a result, the pressure to change has increased in a short period of time.

If you compare the existing forms of **self-organisation within an industry** like the Swiss hotel industry with the **management and coordination** that an **online platform** takes on in respect of its independent participants, it is easy to see that online platforms like Google, Amazon, Booking.com and many more effect adjustment to changing market situations much faster. When faced with intensive competition, they focus completely on customer benefits and on creating good revenue opportunities for themselves in the long term. They **define the performance characteristics** of the platform offering which the participants in the platform must orient themselves towards. Meeting the requirements will be rewarded by a better ranking and consequently better chances of success, for example. The mechanism enables many independent participants to adapt to the

prescribed goals with their performance characteristics within a short period of time. If the appeal of the platform as a whole increases as a result and the participants profit overall as a result – this will probably not apply to each individual – then it justifies the **management role of the platform**. On the other hand, if the platform pushes the requirements too far or loses confidence in its chances of success, insufficient participants will take part and the platform will lose significance (subsection 3.5).

3.4 Assessment of distribution costs

Today, accommodation providers have a wide variety of different distribution channels to choose from. The offerings differ considerably and require some know-how in order to be able to assess them and apply them effectively.

It has become easier for accommodation providers to put their offering on the market.

Philipp Ries, Google Switzerland

Without doubt, **direct bookings** are most advantageous for an accommodation provider if they can be achieved with minimum advertising measures. However, customer behaviour is developing in a different direction. Although direct booking channels are still available, more and more guests are showing a preference for **external booking options**. Therefore in order to respond to this trend, it is expedient for accommodation providers to work on possibilities for increasing the appeal of their direct booking channels.

Today, the decisive question is how many bookings a hotelier can get via his own channels.

Thomas Allemann, hotelleriesuisse

In the current discussion, the main points referred to are the increased distribution costs due to the shift from internal channels to external OTAs. This is to be clarified below. Any percentages referred to below relate to the up-to-date room price that is valid for the public in each case, known in industry jargon as the BAR (best available rate) [25].

Today, hotels have a lot more channels than they used to have and they can be controlled better.

Erich Mühlemann, TUI Suisse

At this point, an important incidental remark should be made regarding room prices in connection with distribution costs. The BAR is an up-to-date price and already takes into account seasonal fluctuations in the price level. If a hotel was able to sell its whole capacity to customers booking by telephone or e-mail or walk-ins at the BAR on every day that it was open, there would be no

distribution costs apart from the costs of the staff who processed booking requests. However in practice, some bookings are made via direct channels at a lower price than the BAR. That applies, for example, in the case of B2B agreements with local organisations which do not book their negotiated prices via a GDS and also seemingly do not give rise to any distribution costs. However, a reduction on the room price must be posted as distribution costs. After all, the hotelier would not grant it if he could occupy the same number of rooms at the regular price. Therefore distortion of the perception of the actual distribution costs can also result from the agency costs of an OTA, for example, being posted under distribution costs in the profit and loss account. On the other hand, the reduction on a room price is not posted. It only leads to lower revenue in respect of income. The costs of agreed price reductions or net rates that are agreed on an annual basis are therefore not visible while the costs of an OTA crop up again and again via the invoices regularly received.

In order to estimate the costs of the OTA distribution channel, it is to be assumed that a hotel pays an OTA that charges based on the retail model commission at a rate of 13.6%. With the **retail model**, the hotelier determines the room price and the OTA charges him the agreed percentage of commission for accommodation arranged on this basis. In 2016, the average rate of commission was 13.6% according to a survey conducted among 295 Swiss hotels that carry out distribution via OTAs [26, 27]. For 91% of the hotels surveyed, the rates of commission lay in the range between 12% and 15%. 45% of hoteliers are limited to the 12% minimum rate of commission charged by booking.com. Only 1% paid more than 20% commission in 2016. When you add further booking-related costs at a rate of 2%[28], e.g. for the technical connection via a channel manager, for example, to the average rate of commission of 13.6%, the external costs that apply to such a booking for the hotel amount to a total of just under 16%. Channel managers are middleware software systems that enable the automated comparison of capacities and prices between the hotel's internal property management system (PMS) and various external booking platforms. If a hotel does not use a channel manager, it will have to manage these data manually on its Extranet website for each portal individually which means high personnel costs and risks of errors being made.

It is painful to realise that hotels have lost such a high volume of bookings in such a short time. It's probably gone for good and now people feel dependent and exploited.

Michael Maeder, Switzerland Travel Centre

None of the classic external distribution channels covered above show lower costs. STC with swisshotels.com would theoretically be an exception,

with total costs of around 12%. However, the platform currently generates very little demand and is therefore not a real alternative to big OTAs. The norm for the distribution costs of external channels is that they start at around 20% and considerably higher: they can even get up to more than double.

The shift towards the Internet channels, as shown in Fig. 5, affected all the other channels but especially the direct booking channels. Over the past ten years, the share of direct bookings has gone down from 75% in 2006 to 58% in 2016 [29See []]. With that, the share of bookings from external channels has gone up 17% to 42%. At this point, it is moaned about that for an additional 17% of bookings, high rates of commission must be paid in each case. Based on 16% external booking costs, in terms of total costs, the shift accounts for a cost increase of 2.7%. Considering the prevailing low cashflow margins, especially in the classic holiday regions, that is a very high value. The **comparison is however only correct** if the room could actually also have been occupied without external costs, and if the marketing by the OTA leads to a higher capacity utilisation than without it.

If the services of the OTA are dispensed with for the purpose of marketing six free rooms and only one room is not taken and the room remains empty, the bottom line is that the hotelier has not saved any more. In many cases, costs will also be incurred for a direct booking: whether because a lower price than the BAR is accepted or because due to no-show telephone and walk-in guests, the online channel has to be pushed using expensive performance marketing resources such as advertising on search engines, for example.

The current situation in respect of the so-called **billboard effect** is unclear. Older surveys show that numerous interested travellers who had found an accommodation facility that interested them via an OTA also visited the website of the accommodation provider before making a booking and then in some cases even booked directly via the provider. In contrast, more recent survey results indicate that the billboard effect has become less significant. Today, customers would rarely book by directly contacting the hotel which is due to aspects such as the convenience provided by data already stored or a superior booking process, especially in the mobile sector. However if the billboard effect has not completely disappeared, the additional direct bookings that it triggers would reduce the effective burden of commission.

90% of private hotel guests search for a hotel's website before booking, even if they found the hotel via an OTA.

Walter Berger, Rebagdata

With the previous line of argument, the weight of the costs that are incurred for distribution via an OTA are not to be marginalised. On the contrary, it is to be shown that a **comparison of the distribution costs** is misleading if a notionally cost-free direct booking is merely replaced with a paid OTA booking and all the other aspects, especially higher capacity utilisation, are simply hidden.

The costs of online marketing are the biggest barrier. This is our most expensive channel that is used as a last resort.

Erich Mühlemann, TUI Suisse

If a hotelier can sell his rooms without an OTA at a lower cost, then as a rule he should do that. He could set his offering on the OTA platform for that period to zero or apply booking restrictions to the rooms in order to make undesired bookings more unlikely. Whether that would be a wise strategy remains to be seen. **The prerequisite for a differentiated management facility** is firstly that the hotel perceives it actively in respect of know-how, processes and infrastructure. Secondly, the hotelier must not have agreed any availability parity with the portal. Since mid-2016, Booking.com has no longer been using minimum availability parity in Europe.

If a hotelier uses an OTA **only sporadically**, he must expect to be placed lower in the ranking than competitors who work closely with the OTA. In the ranking mechanism, numerous factors are combined so that houses in the same location where there is considerable competition will have to develop a sound OTA strategy. It should be weighed up as to whether looser or closer collaboration would be more beneficial. For closer collaboration, providers often plan special programs such as Booking.com's *Preferred Partner Program* and Airbnb's *Superhost status* (subsection 2.4). It should be sounded out as to which mix of concessions and limitations as a whole could lead to the best results in the present circumstances.

The controlling of distribution channels calls for competence. With competence comes the knowledge of when higher commission will lead to more profit.

Philipp Ries, Google Switzerland

In summary, it can be said that an OTA like Booking.com is an expensive distribution channel compared to passive incoming direct bookings – if they come in, that is. Compared to powerful external distribution channels, with the conditions formulated here it is a comparatively favourable, **flexible and efficient acquisition tool**. Only performance-oriented online marketing in conjunction with your own booking machine would offer similar flexibility. However in subsection 2.3 on Google, it was shown that the requirements for this are very high. In addition, again because of the competition situation,

high fluctuating costs must be expected with this and by no means can it be relied upon that the total costs involved will be lower than if an OTA was used. All the other channels cannot really be controlled by the hotel in the short term.

Of course, there must be give and take.

Nathan Lauber, Nespresso Suisse

Today, a hotel must actively manage its channels.

Erich Mühlemann, TUI Suisse

Ideally, the mix of distribution channels would be such that new customers in remote markets would be acquired via booking platforms and all others, i.e. regular customers and guests from Europe, would be acquired via direct channels.

Thomas Allemann, hotelleriesuisse

No hotel can market itself online cheaper than via an OTA. Otherwise our 10,000 partners in Switzerland would have been doing it long ago. These are not romantic relationships, they are business relationships!

Peter Verhoeven, Booking.com

Hotels should test the various channels and find out whether and how the relevant costs are justified.

Philipp Ries, Google Switzerland

At a time when people are used to using several types of media in parallel with each other, accommodation providers must also adapt to the **different channel preferences of their customers**. In addition, in many cases it will be necessary to identify and address different types of customer with different requirements and behaviour patterns in order to balance out fluctuations in demand over the course of a week or year. Business people who travel between Monday and Friday have different requirements and ways of behaving compared with private travellers who go on trips at weekends. Therefore the challenge for an accommodation provider consists in identifying the **optimum mix** of customer types and acquiring these specific types at the right time in each case. The optimum customer mix will differ from one hotel to the next. The right distribution channels are then primarily those that ensure that a **good level of capacity utilisation** is achieved. Various booking channels may complement each other too. The costs of a distribution channel are also only one of several important criteria. It is just as important to aim for diversification in order to avoid excessive dependencies.

As shown by the above explanations, the requirements relating to distribution within accommodation businesses have increased dramatically over the past ten years. In the conversations with the participants in the survey, they kept pointing out that SMEs within the industry are overtaxed by these requirements. However, there is no alternative but to find solutions or, in the case of an excessive demand that is regarded as impossible,

to accept the redimensioning of the hotel sector that was described as inevitable back in the KOF survey report from 2011 (subsection 1).

I understand that hotels are under pressure. But that is not a problem with distribution costs or contracts but rather the exchange rate. Now the price-performance ratio is no longer valid.

Tim Bachmann, Hotelplan Suisse

Peter Verhoeven von Booking.com describes his experiences from other countries in this connection: If such an **adjustment crisis** goes on for a long time, there are some entrepreneurs who will adapt and make money again. And there are others who will complain about the way that the world has changed and not see any opportunities for themselves. A hotel may give up, someone will buy it based on a lower valuation, renovate it and take a new business direction, targeting new customers who are willing to come to the hotel at the new price. Also in a stormy economy – and Switzerland was spared from that for a long time – there are always entrepreneurs who will make something out of the situation. Perhaps the hotel industry in Switzerland should reinvent itself so that it can provide its services at a 20% lower average rate.

3.5 Handling powerful agents

The discussion within the accommodation industry oriented toward the commission charged by OTAs is reminiscent of the really intensive discussion that took place within the world of e-commerce a few years ago. At that time, the increasing **costs for Google Ads** were the bone of contention. In the meantime, the situation has calmed down though that is not due to the fact that costs have come down. Instead it could be due to the fact that the following three insights have generally been disseminated from the experiences gained in the meantime:

1. it can be argued that in order to optimise its search results and thus also ensure its long-term success, Google has to **define and implement standards**. If you accept these standards, systematically orient your website to them and optimise it accordingly (SEO – search engine optimisation), if at the same time you confront the mechanisms of paid advertising on Google (SEA – search engine advertising), build up know-how on the interaction of the factors cost per click, conversion rate and item price or discount, if you develop, implement and constantly optimise a lucrative bidding strategy based on these, if you take into account all these principles in collaboration with Google, Google is a very **effective and profitable instrument** for accessing customers and for succeeding in e-

commerce. The constructive behaviour of users will strengthen Google and its performance which will also benefit users. However, the use of this instrument cannot be arbitrarily scaled because with an increasing volume of purchased traffic, costs will also go up and you will eventually reach your break-even point. In the meantime, it has also been established that the principles referred to here also apply to other platforms, e.g. to the Amazon marketplace and probably also to Booking.com.

2. If you **do not want to follow** or cannot follow the principles mentioned even taking account of possible help from specialised agencies, in a topic area where there is a lot of competition it is unlikely that you will be able to purchase traffic on a large scale from Google at a reasonable price from an economic point of view. A provider will then have to look for other sources of traffic or accept the limits of his sales potential.
3. As a purchaser of Google traffic, you can easily become **dependent**. In any case, you are at the mercy of Google's manoeuvres on the one hand and the price variations for Google traffic on the other hand that, according to competitors' behaviour in each case, can also lead in the short term to considerable changes in the costs incurred or the volume available on the other hand. Therefore it is a sensible strategy to use Google for distribution for as long as it is profitable to do so, but to develop alternatives and make preparations at the same time in case problems should arise.

If an online platform is not performing as a distribution channel, we will quickly pull the plug on it.

Erich Mühlemann, TUI Suisse

Each individual company is **at the mercy of** the modalities and conditions that powerful platforms like Google, Amazon Marketplace or Booking.com bring to their industry, and has no alternative in the sense that the only alternative is to opt out. The "rules of the game" have many benefits, even if the individual might have wished that they were different in terms of the details. They are unifying and reduce complexity: they make the offering more transparent and handling easier for end customers. Accordingly, the shaping power of the platform can have a **positive impact on a market** – that is typically the basis of its success. However, it also has the potential of enabling the **misuse** of power, e.g. discrimination, prevention of competition or unilateral skimming of profit. Apart from the relatively slow correction mechanisms from competition laws, the only way to counteract this is for a sufficiently large number of users to make it known, if necessary by targeting neuralgic points, that they will no longer "go along with

it" and to jeopardise the success of the platform. As online players are strictly indicator- and success-oriented in their work, it would need to be identified in practice as to whether influence could be exerted in this way.

If the users want to discuss **exerting an influence** on the behaviour of a platform, then first of all the corresponding group of users must build up sufficient competence and relevance for the platform. That will require a targeted joint procedure along with self-organisation of the providers. Their first task would be to create **transparency** via the mechanisms of the platform and current developments, definitely based on **indicators**. These findings should be subject to a wide discussion according to their significance. In addition, **reference strategies** should be developed. The individual players would need guidance on how to evaluate their own situation. The next step would be recommendations on useful practices within the framework of the given possibilities as well as **performance standards** to be aimed for, if necessary in conjunction with further training. If the industry was to use the procedure followed by Internet-only players, it would set itself measurable goals and focus on these.

If there are no further opportunities for constructive improvements using the means from the platform, efforts would have to be made to take coordinated **tactical measures**, using a sufficiently large group of users, in order to ensure attention from the platform. One example for the hotel industry could be to offer OTAs no allocation, or only a considerably reduced one, in a peak demand period. In that case, the drawbacks of the prisoner's dilemma are to be noted: a behaviour that is detrimental for the group as a whole may be more beneficial for the individuals than cooperation with the group. Naturally, such a period would have to be prepared for extremely well beforehand by making own booking channels fit for this situation and by supporting a corresponding commitment to metasearch engines and Google. It would be possible to use **STC as the spearhead of hotelleriesuisse** (subsection 3.3). Such measures would require a "war chest" – it would also be a question of protecting future revenue opportunities. The measures would not be successful to start with, first of all it would be about the providers building up know-how regarding the levers that they could use to increase their influence. If the group of providers can credibly show a critical mass and the ability to act, it should become possible to have a discussion with the purpose of **reaching an agreement**.

The goal must always be the ability to work constructively with a platform, to join forces and where possible not to squander resources on friction within the distribution chain. If a platform does not fit your own

business strategy in key areas, you should look for alternatives to it and not wear yourself out on conflicts.

4 Rate parity and Bischof's motion

Bischof's motion is about whether tight rate parity in contracts between OTAs and accommodation providers is permissible or not. Before going into this in detail, aspects of the pricing policy should be addressed.

4.1 Rate parity versus a range of prices

The significance of the price as the main criterion for customer decisions, also as a stimulus for triggering the final step in making the booking, which is often neglected by providers has already been discussed in subsection 3.3. It was established that e.g. the marketing site myswitzerland.com gets a lot of traffic but only an unsatisfactory share of that traffic is converted into bookings. Customers want to book where they can also rely on a very good price for the promised service. If that is not the case, they will use the facilities offered by the Internet to seek out the provider with the best price – in the accommodation industry via metasearch engines. That search will take time and is something that is no fun for many people. The consequence of keeping on purchasing from, or booking with, different providers in order to find the best price is also annoying because you keep having to register again and again and finding yourself in an unfamiliar environment.

A guest must tear his hair out if he finds rooms at different prices on different sites.

Florian Teuteberg, Digitec Galaxus

It must be easy for customers as different prices are unhelpful.

Sven Betzold, ifolor

Having the same prices on the hotel website and under Booking.com make the traveller's life easier and give him confidence.

Peter Verhoeven, Booking.com

How clear the situation in industries with regulated prices is by comparison, e.g. in public transport! Before taking the train, passengers do not spend a single second thinking about whether the price offered by the sales channel that they have just used is a good price or a bad price, whether it would be better to book in the morning or in the evening, on your PC or using your smartphone. In the public transport sector in Switzerland, **rate parity is prescribed by law** and it only allows deviations within a very limited range. That makes things easier for customers and in the case of subsidised providers, saves all the efforts and costs that are also caused by price competition. The providers have lower costs and

calculable income as price wars are barred. But there is simply no competition.

Obviously, customers want competition so that they can get a favourable price-performance ratio, otherwise they would make a purchase or booking at the first opportunity in each case. However, a lot of customers do not enjoy having a **confusing range of prices** because it takes a lot of effort to find good prices or you get a bad feeling deep down because you might have been taken advantage of or if you have been lazy and not bothered to carry out any further research. One of the reasons why customers seek loyal relationships with chosen providers is that with these, they can be confident about getting a price-performance ratio that suits them, at best also supported by loyalty bonuses. The better a provider is able to consistently maintain the promised price-performance ratio, the more stable the customer relationship will be in that respect. Therefore it makes sense for a provider to try **to be reliable** regarding this and to make promises: "Booking.com offers you the best prices – in the city, at the seaside or in the country." [30].

Today, shrewd customers will ask the hotel directly about special offers. And they get them too because the hotels want to save on commission.

Kilian Eyholzer, Victorinox

An excessive range of prices for the same service draws attention to the price and **deducts from the qualitative characteristics** of the offerings – exactly what hotelleriesuisse and accommodation providers have been complaining about. Wide price ranges undermine the customer's perception of value in respect of the service offered. That is why brand manufacturers make every effort to prevent a wide price range for their branded products. If they had it their way, the price of a product would be the same throughout a market. Rate parity would then make sense, however the permissibility thereof is tightly limited under antitrust law.

In principle, every merchant or agent would like the best price from everyone. Since that is difficult, he wants at least an equally good price.

Michael Maeder, Switzerland Travel Centre

I cannot sell a Tolino ebook reader via Interdiscount at a higher price than we ourselves charge – if I did that, Pierre would say to me: "Have you gone mad?" (Pierre Wenger is the head of Interdiscount.)

Pascal Schneebeil, Orell Füssli Thalia

In Switzerland, just like in other countries, a large number of accommodation providers have considerable price variability as clearly shown by random samples taken as part of this survey and observations made by the participants in the study. No discernible common thread was found as to what is more expensive or more economical when or where. Industry insiders on the survey panel state that the price differences from

providers are often not intentional but rather due to poor data maintenance and coordination of different sales channels – however, that makes no difference in respect of the effect on customers.

From the standpoint of **brand development**, it does not make sense if accommodation providers who are responsible for their capacity and the starting point for all price agreements do not create a basis that customers can rely on in order to get the best price directly from them. The expedient **yielding instruments** of hotels for optimising revenue are the capacity utilisation-dependent best available rate for the day (BAR) and the targeted allocation of free capacity to the most suitable distribution channels in each case, not the spreading of different prices via different channels and not the use of channels where the observance of an agreed lower price limit is not guaranteed either. With the lower price limit, the hotels themselves have an interest in rate parity and also behave in the same way towards their distribution partners, the balance of power permitting.

A hotelier should not offer better prices on booking platforms than the ones on the hotelier's own website.

Thomas Allemann, hotelleriesuisse

Customers should be able to rely on getting the best deal from the hotel itself.

Luca Graf, Swiss International Air Lines

Ideally, a hotel will also offer the best price on its website.

Erich Mühlemann, TUI Suisse

It is important for the industry to be aware that price ranges are one of the main reasons why travellers use metasearch engines. Metasearch engines thrive on the complexity of the market (subsection 2.2). The service that they provide in respect of creating price transparency is paid for by the party that carries out the booking and **this increases the distribution costs** of the distribution chain as a whole. The more customers seek out metasearch engines and the more these compete with each other on account of the attractive market potential, the higher their traffic costs will rise. Consequently, the costs that they pass on to OTAs will also go up and ultimately the distribution costs for the hotelier. In an interview published on tagesanzeiger.ch on 28.11.2016, Peter Verhoeven of Booking.com clearly describes this connection: "Since 2010, we have not made any adjustments to the rates of commission in Switzerland. And we have no intention of increasing them either – unless there are any changes to the framework conditions. If, for instance, Google, Yandex or Baidu were to put up prices [for traffic], we would have to react" [31]. A distribution policy with excessively different prices could therefore be a driver for increasing distribution costs on external channels.

Metasearchers are only then beneficial if the prices for the same services are very different.

Tonino Romano, Kuoni Travel

Since autumn 2015, Booking.com has required its accommodation providers throughout Europe to observe a so-called **tight rate parity clause** based on which an accommodation provider cannot offer a more favourable price than the one given on booking.com for a comparable offering on his own website. This relates to the price available to consumers online. The hotelier is not bound by this in the case of enquiries made over the telephone or by e-mail or in dealings with regular customers. The previous valid more far-reaching and **wide-ranging rate parity clause** was replaced by the **tight** one in response to pressure from various initiatives in a number of European countries. The purpose of the rate parity clause is to ensure the performance promise of the platform in respect of offering the best prices on the one hand and payment for successfully selling to a guest on the other hand. The business model and services provided by Booking.com as an OTA are described in subsection 2.1.

As Bischof's political motion that aims to establish a legal prohibition of such rate parity clauses (subsection 4.2) and is currently ongoing is a topic that has been discussed publicly, in this year's survey all the participants were asked about their position on rate parity clauses and on Bischof's motion. The 33 answers given reflect the fact that this question is not an easy one to answer in general terms, it depends on the precise contractual arrangement in each case. Four people categorically reject any restriction of the provider's control over prices and products. Others would prevent this as much as possible, have misgivings on account of the market power of large providers, actually work in environments where rate parity is practised, are undecided or regard fixed price agreements simply as a legitimate means within the freedom to make contractual arrangements.

Participants in the survey from companies that also operate a bilateral business model know a thing or two about this topic. The **Amazon Marketplace** also had a wide-ranging price parity clause for merchants for a number of years. After the German Federal Cartel Office and the British Office of Fair Trade initiated proceedings relating to this, Amazon removed the price parity clause 2013 throughout Europe. The Swiss online marketplaces **ricardo.ch** and **siroop** do not include any pricing clauses for providers in their contracts. However, they leave no doubt about the fact that it neither makes sense nor guarantees long-term success to want to make an offering via an online marketplace and to render your own offering null and void elsewhere yourself.

I can understand if a platform requires price parity but that should actually already be the goal of the provider.

Florian Teuteberg, Digitec Galaxus

A number of times, the people who have already studied this industry topic in depth wondered what the actual significance of this aspect is for hotels' market situation and whether a legal prohibition would make much of a difference. It is clear to all players that you have to pay for the marketing services of OTAs. The **dispute** is about the rate of commission, the freedom of organisation of hotels in relation to short-term conditions relating to room prices, cancellation conditions and suchlike and not synchronised with OTAs. The resulting range of prices for the hotel can be problematic as discussed in subsection 4.1 above. The fact as to whether or not customers branch from the OTA to make a booking on the hotel website depends on whether or not the controversial billboard effect is still present. The impact that pricing competition in respect of the OTA from the hotel would have disappears in the public discussion: If the shift in bookings has the effect desired by the hotel, this would be detrimental to conversion on the OTA platform. Accordingly, the hotel would be rated as less attractive and the OTA would move its marketing efforts to properties with higher success rates. Consequently, there could be a reduction in the efficiency of the OTA sales channel for these hotels.

When Amazon dispensed with fixed price clauses throughout Europe in 2013, it did not have much of an impact.

Bodo Kipper, ricardo.ch

Hoteliers should not have unrealistic expectations regarding the legal abolishment of price parity clauses. OTAs are in a strong position. The convenience, the security – for the people who use them, it is not necessarily about the best price.

Michael Maeder, Switzerland Travel Centre

As a result of dealing with the topic of price in respect of hotels and OTAs, the theory is put forward here that it makes most sense for the hotelier to make sure that the prices on his website and the site of the main OTA(s) are identical **of his own accord**. Where OTAs are not required for capacity utilisation, he can reduce the allocation or not offer all room categories via the platform. In other cases, he can optimise his distribution strategy via external channels not based on the lowest rate of commission but rather based on the **highest total revenue for his business**.

4.2 Bischof's motion

As their significance and market power increased, OTAs began to advance their interests by including increasingly restrictive clauses in contracts with hotels. At the centre of these were so-called **preferred-supplier clauses** that make it obligatory for accommodation

providers to offer the most favourable conditions on the relevant platform. That included the best price in each case, maximum room availability and the most favourable booking and cancellation conditions in each case. At the start of the 2010s, there was strong opposition to such clauses. In February 2012, there was an initial warning for HRS in Germany from the Federal Cartel Office due to its intention to extend the clauses to also include walk-in customers. At the same time, proceedings were also initiated against Booking.com and Expedia. This was followed in December 2013 by the ban on the best price clause of HRS that was confirmed in January 2015 in the first European court decision on this matter. Booking.com was operating similar contractual clauses to HRS in many countries, including Switzerland. Following the decisions made by the German authorities, in July 2015 Booking.com reduced rate parity from a **broad** to a **narrow interpretation** based on which it is only to be applied in the relationship between the hotel and Booking.com but not on third-party platforms. This correction was deemed to be sufficient by the competition authorities in several European countries but not by those in Germany. In December 2015, the German Federal Cartel Office also banned the reduced contractual clause. It is also important to note that the required **narrow rate and condition parity was in conjunction with widespread minimum availability**. Booking.com appealed against the decision and in the meantime adjusted its contractual terms to the obligations imposed in Germany but nowhere else.

In Switzerland, the **Competition Commission** (WEKO) had also been looking at the contractual terms of Booking.com, namely with those in the version prior to 1 July 2015 containing wide parity clauses. In October 2015, they classified these as unlawfully affecting competition and prohibited the use of wide parity clauses [32]. The narrow parity clauses introduced shortly before were not prohibited. However this was not an antitrust evaluation because that was not the object of the investigation. The possibility of assessing admissibility under antitrust law after monitoring market development as part of new proceedings was expressly left open. Misuse of the potentially dominant position of Booking.com was also investigated though the Competition Commission was unable to prove any actual misuse.

The decisive question is whether Booking.com has abused its position. However, the rates of commission charged by Booking in Switzerland are at the lower end of the scale compared to the rest of Europe. And they have not been increased since 2010. In addition, we have relaxed our contractual conditions relating to parity and availability over the past few years – not really an indicator of the abuse of a strong market position.

Peter Verhoeven, Booking.com

It is not the commission rates of OTAs that are the problem but rather their contractual conditions such as the best price guarantee and their business practices, e.g. in the case of brand bidding.

Thomas Allemann, hotelleriesuisse

So to date, the only European competition authority to have prohibited the narrow price parity clause is Germany. As already mentioned, this was in conjunction with a widespread minimum availability clause. There was political opposition to this that led to the legal prohibition of all price parity clauses in respect of hotels in France and Austria. Another such initiative was started in Switzerland: On 30.9.2016, the Solothurn member of the Council of States, Pirmin **Bischof**, launched a **motion** entitled "Prohibition of adhesion contracts imposed by online booking platforms on the hotel industry". It aims to instruct the Federal Council to establish a legal prohibition of price parity clauses in the contractual relationship between online booking platforms and hotels. The Federal Council called for the motion to be rejected in its statement dated 16.11.2016 while the first Council of States accepted it on 6.3.2017. It was then discussed by the National Council.

As part of this year's survey, 33 participants in the survey were asked their opinion on Bischof's motion (Fig. 6). In the introduction, it was stated that rate parity on online marketplaces is a controversial cross-sector issue. The participants from the travel industry were also asked whether they considered the term **adhesion contracts** appropriate for the situation and exactly which condition is the problem. In the answers given, it became clear that most people do not have a clear idea of the situation. Accordingly, 13 people would abstain from voting on the motion. However, eight people would vote in favour of it and twelve would vote against it. The opponents mainly put forward the argument that such a topic should **not be the subject of a separate law**. There are appointed bodies in Switzerland such as the **Competition Commission (WEKO)** and the **Price Regulator** which also deal with the topic. Others are of the opinion that you cannot correct the failings of an industry through legislation. For instance, Thomas Kaiser from Ringier Digital argues that every entrepreneur should get a clear picture in good time of what such platforms are doing and how they can be used but also how far you can go without becoming completely dependent on them.

Anyone who sleeps in should not complain later on.

Thomas Kaiser, Ringier Digital

For me, it is legitimate for an agent to ask a price that is no worse than you would get by going to the hotel itself.

Erich Mühlemann, TUI Suisse

The supporters of the motion are worried that **market forces** in the given situation **have already been**

undermined. Most people do not know the difference between wide-ranging and narrow maintenance clauses. The figurative term *adhesion contract* mobilises emotions: the initial reaction of many interlocutors can be interpreted as sympathy for an unfortunate situation. However, only two people are able to explain the concept in concrete terms.

If the market actually puts its foot down, I would support the motion. But Booking is simply a great operation.

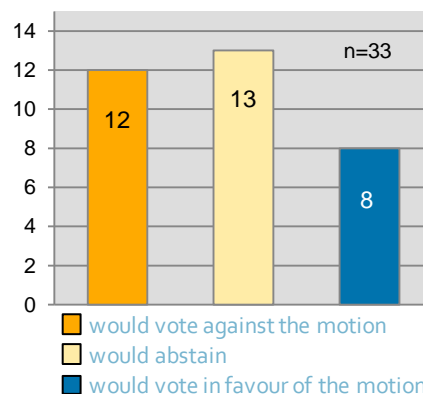
Stephan Widmer, Beliani

We would not accept a contractual clause that included rate parity. On our channels, we work with changing promotions that are not always the same on all channels.

Matthias Fröhlicher, KOALA

Attempts were made to clarify the term **adhesion contract** in the research carried out for this survey too. The question "But what exactly are adhesion contracts?" posed member of the Council of States Damian Müller in the justification of his application for the preliminary review of the motion by the responsible commission. The answer to that remained vague and contained the concept of "**rate parity clauses**" as the only reasoning. An explicit request of Council of State member Müller ultimately showed that the concept is based on no reasonings other than the narrow rate parity clause. The reasonings in favour by the Council of States and the Commission also refer to the decisions in neighbouring countries.

Fig. 6: Attitude towards Bischof's motion



However at this point, a **significant difference** should be pointed out: the decisions in France and Germany were still based on a version of the contract in which the narrow rate parity clause was in conjunction with a widespread minimum availability clause. That combination is transparently problematic for the hotelier as he is unable to manage his offering on external booking platforms based on his actual requirements. So he cannot keep back any capacity for his own channels, even if he is sure that he can market them himself. He loses control over the allocation of his capacity to the channels that are best for him in each case. With the

interlinked contractual conditions, he cannot escape this situation so that it would be understandable for this to be described as duress and for a term like *adhesion contracts* to be used.

The hotel should have control over price. Walter Berger, Rebagdata

Since mid-2016, Booking.com has no longer been using a **minimum availability clause** in Europe. So that the only reasoning that remains for the motion is just the requirement that the hotelier cannot offer any more favourable prices via the channels available to the public online than those on booking.com. In all other situations, the hotelier is free, e.g. he can grant special conditions for regular customers, telephone enquiries, walk-ins and suchlike. If the hotelier does not require the distribution services of booking.com for requested dates, he can reduce the capacity on offer. He is free to allocate his capacity to channels in the way that appears most favourable to him. For Switzerland and for the time when Bischof's motion was launched, the picture of duress conveyed by the concept of *adhesion contracts* is no longer convincing.

Our contracts are not adhesion contracts: there is no longer a minimum number of rooms that the accommodation provider must make available. The provider is completely free to organise pricing. He can increase, reduce, zero or completely cancel his allocation at any time.

Peter Verhoeven, Booking.com

Whether a change in the law is introduced for any such contractual clause is a matter for the lawyers. Contractual price agreements are practised in many industries. A very similar example in terms of content are so-called *full content agreements* that are operated worldwide between airlines and global distribution systems (GDSs). The contracts of Booking.com are also still being **investigated by the Competition Commission** that has announced that further action will again be taken if necessary. The President of the Competition Commission, Prof. Dr. Vincent Martenet, refers to the problematic development in his foreword to the 2016 annual report of the Competition Commission to the Federal Council [33]: "Special regulations for certain industries, as requested in various political initiatives, go against the general character of antitrust law."

Rate parity between online marketplace and provider is a customer interest worth protecting and does not have a lasting impact on trade competition. Bodo Kipper, ricardo.ch

At eBooks, we have to contend with hidden rate parity included by publishers and the legislator says nothing about that.

Daniel Röthlin, Ex Libris

The State should not get involved in the contractual details within an industry. Tim Bachmann, Hotelplan Suisse

If the aim of Bischof's motion is to free hotels from duress, the **mission has already been fulfilled**. Due to the resistance of the industry in a number of countries in Europe – in Switzerland mainly by hotelleriesuisse – through interaction with competition authorities and with political support, Booking.com was forced to **give in** as far as Switzerland was concerned – and without law either – and to give up on the **problematic interlinking** of two conditions.

If the aim of Bischof's motion is to stand by hotels in their partly unfortunate situation, an industry-specific intervention in private autonomy that is permanent in character and in competition with antitrust law would be a problematic path both in legal and regulatory terms. In parliament and the government, other measures are also being discussed: besides the intended continuation of the special VAT rate for the hotel industry, for example, **tourism policy measures** for implementing the federal tourism policy. Perhaps more suitable measures could be found in these fields to support the industry in the current adjustment crisis.

5 Reflection of the digital transformation

The **drivers** of the digital transformation within the accommodation business are still largely those which unfolded with the advance of the Internet from the mid-1990s: digitisation and connectivity. The travel industry is indeed one of those industries in which global networks have operated since back in the 1970s. But it was only the Internet technologies that released the applications from their proprietary fetters, made them accessible to private end consumers and, like in other industries too, developed an unprecedented transparency. The entry of new players into the networked industry has become much more low-threshold. Apart from the widespread adoption of mobile technologies by consumers over approximately the past ten years, **more recent drivers** of the digital transformation within the travel industry have not gained any notable significance, e.g. virtual reality, cloud-based solutions, the Internet of Things, Blockchain or robotics. In the case of the major global platforms, it can be assumed that they work with modern data management, analytics and artificial intelligence solutions which is reflected in personalised offerings, for example. One current field of research with test applications includes voice recognition and voice-based interactions.

To date, in many cases it is only booking which has become easier. I believe that digital will also change other areas, especially the "in-destination experience".

Philipp Ries, Google Switzerland

The most important and to date still the most effective aspect of the transformation is the **transparency** that has been created (Fig. 7). This has a significant effect on both travellers and providers. The greater transparency in conjunction with mobile booking solutions that are available everywhere has provided low-threshold access to travel and the available offering as well as the flexibility and spontaneity associated with travel have increased. The range of available information has been expanded with the addition of comprehensive guest assessments and feedback.

Accommodation providers are integrated in **industry structures** in which the digital transformation has unfolded in different ways. From the world of **GDS systems**, one of the first global e-business networks, first there came internet distribution systems (IDSs) which worked in the background with GDS infrastructure. Little by little, these dissociated themselves and today they form an independent distribution infrastructure for the travel industry based on modern Internet technologies under the designation of online travel agency (OTA). The emergence of OTAs put **stationary travel agencies** under pressure. A massive consolidation of the latter has taken place over the past 15 years. With a high proportion of private trips – flight, hotel and all-inclusives – private travellers find out information and book on the Internet themselves so that with these services, we can talk about **disintermediation**. On the other hand, consumers also use an IT infrastructure which involves no provision of a personal service but which is provided by an independent type of agent: OTAs. OTAs are new intermediaries so we can talk about **reintermediation**. The business ecosystem of the old world of GDS still exists today in the world of business travel in particular, thanks to organisationally, financially and technologically effective lock-in effects, although it is becoming less and less important. A new ecosystem formed around OTAs with vertical metasearch engines primarily for flights and hotels as well as the horizontal search engine Google. On the procurement side, there are also so-called bed banks, which are databases for free bed capacities, and service-providers for the technical integration with accommodation providers, e.g. channel managers.

OTAs, as is also the case with online services in other industries, have shown the **capability and power** that

platforms can develop. OTAs realise their value creation in the customer journey through just two functions: the presentation of a bookable offering and the processing of bookings. As purely digital business models with **network effects**, they are dependent on size for which the competitors compete intensively. Thanks to a high level of investment that also enables the acquisition of other companies, and thanks to purposeful and strongly fact-oriented management, a small group of platforms has managed to penetrate the global market with their services. The functions are constantly optimised in detail as a result of which an unprecedented high level of performance is achieved. By integrating and coordinating numerous partners in largely automated processes – in Switzerland, Booking.com works with 10,000 accommodation providers –, the platforms define the rules of the game which have to be followed by whole market segments.

Despite the tendency towards concentration, in the Internet distribution for accommodation services there is still a **significant number of competitors**, both at the level of OTAs as well as metasearchers, even if Booking.com has a 70% market share in respect of online bookings in Switzerland. The basic structures in the interaction of the players involved including Google have indeed remained unchanged for years. However, there is an increasing overlap between the functions of the various types of provider. The competition involving these players, including between themselves, has led to high spending on advertising which in turn has brought high distribution costs for the mediated service-providers. A **typical customer journey** goes – often in multiple loops – from Google via metasearch engines to an OTA via which the hotel is booked. As each of these stages involves the use of resources and the technical limits are established arbitrarily, it is a question of business model innovation as to whether or when this structure is shortened.

The distribution costs via Google have definitely risen because global players pay huge sums for these.

Tonino Romano, Kuoni Travel

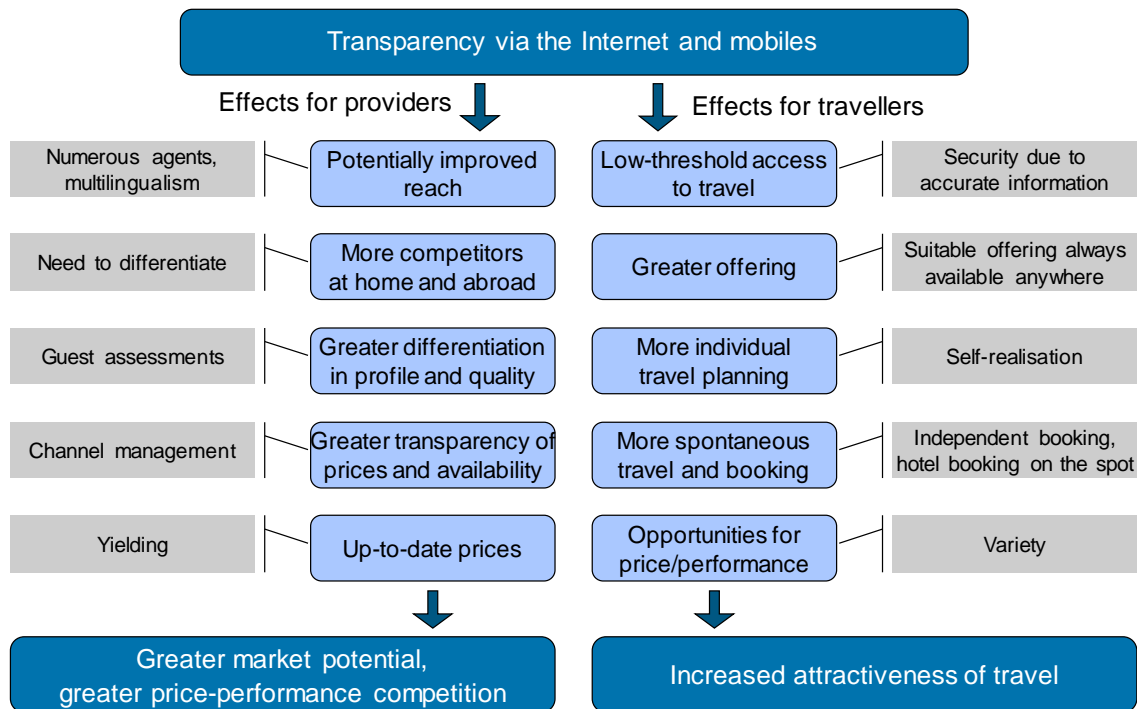
Despite all the theories, there have been no fundamental changes in the balance of power within hotel distribution in the last five years – it is still determined by Priceline, Expedia and Google.

Michael Maeder, Switzerland Travel Centre

OTAs, metasearchers, Google and direct sales channels will continue to exist in the future too.

Julia Stadler Damisch, Kayak Europe

Fig. 7: Effects of transparency via the Internet and mobiles on the accommodation industry



Airbnb has managed to establish itself as a platform for accommodation services completely independently which is to be addressed purely from the point of view of technology first of all. In this respect, it managed to bring together both providers and also consumers in large numbers based on own platforms without any intermediate stages. Up to now, the marketplace has also functioned with mediation via search engines or other traffic suppliers.

In the case of the **accommodation providers** themselves, it is only hotel chains and some of the big hotels that have developed their competences and infrastructures to such an extent that they have become active nodes in the online distribution networks. For example, they are able to link their internal property management system (PMS) to metasearch engines in such a way that direct bookings can be made from these. That requires not only the use of corresponding middleware systems but in particular also the know-how in relation to yield management encompassing multiple distribution channels and bidding on listings or Google Hotel Ads. Accommodation providers with an average level of digital maturity are able to provide various distribution channels with current availability data via channel managers and to transfer bookings from these to their own system. They also have a real time booking solution integrated in their website and are able to master rudimentary techniques for generating traffic for their website.

Only a few hotels have the technical ability to build up a professional online distribution system.

Tonino Romano, Kuoni Travel

A large number of accommodation providers are still at a **lower level of development**. That may be in terms of both the technical infrastructure, internal processes and also know-how. Considering the visible development of Internet distribution over the past twenty years which passed the 10% share mark in terms of bookings in 2010 and reached the 30% mark in 2017, the majority of SMEs have **failed** to react adequately to changes within the market for a long time. Accordingly, the industry currently shares its destiny with the stationary fashion trade and stores which have currently also been affected by a shift in demand from traditional channels to online platforms and as a result are experiencing a crisis. However, the accommodation industry has an advantage over these and more than ever over the music industry inasmuch as to date, only distribution has been affected by the digital transformation and not the actual provision of services.

To date, the **tourism and industry organisations** have not managed to find adequate answers to the challenges in digital distribution. The Swiss media industry has shown how differently things can turn out as it has been even more heavily affected by the digital transformation. After around fifteen years of fighting their corner, all the major Swiss classifieds online marketplaces like ricardo.ch are again fully owned by Tamedia and Ringier. In order to defend themselves against superior foreign

platforms, strong alliances have been formed – and approved by the Competition Commission. These include JobCloud in which Tamedia and Ringier each have a 50% share, which dominates the Swiss online job portals market, and the advertising alliance of Ringier, Swisscom and SRG. The head of the Ringier Group has even taken on the role of head of the national location initiative Digital Switzerland 2025. This attests to the fact that **cross-company efforts** are also required in order to overcome the challenges of the digital transformation.

If the current trend continues without changing in the future, the **distribution function** will become increasingly decoupled **dissociated** from the provision of the actual accommodation service. Depending on how the balance of power develops in the future between the distribution platforms and the accommodation providers, businesses run the risk that to a large extent, the margin that can typically be made in the industry will be siphoned off by the online platforms. Handling and standing up to the power of online platforms are cross-sector challenges for which there is no best practice yet.

However, the rapid development of **Airbnb** shows that digital business models can also provide continued impetus for the industry. Airbnb represents a **countermodel** to tourism services increasingly created based on industrial principles, characterised by the increasing size of companies, for example. Even if a lot of Airbnb offerings are very similar to conventional offerings, the way of thinking to date is different. That is demonstrated in the commission that is split between

the provider and the guest, for example. This type of platform provides new opportunities for smaller businesses with the ability to provide personal hospitality in particular and recently also for leisure activities besides accommodation, enabling the service-providers to **concentrate on their core activities** and delegate the business of acquisition to the platform.

Development within the whole online business, along with the accommodation business too, is ongoing. The challenges of mobile business have only just been overcome by the leading players within the industry and now they are already faced with new paradigm shifts: initial applications of interactions via **chat and voice** – the latter therefore without a keyboard and monitor – are currently being tested. Besides the browser, **digital assistants** could become the pivotal and focal point of online interaction. The hotel's internal PMS will then have to be able to answer a question such as the following independently: "Alexa, what rooms are available at the weekend in Lugano with a lake view?" Alexa obviously also knows that if at all possible, the guest would prefer a room in which it is possible to smoke. If online booking facilities should **differentiate themselves** in such a way, then perhaps one day accommodation providers will see it as a blessing if there are competent, external service-providers who can take over the task for them.

SBB is currently developing bots for other platforms, for Facebook Messenger and for Skype. SBB would like to be a player on other platforms if they become important in connection with travel behaviour.
Christof Zogg, SBB

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