

UCWG Workshop

OTA Hypothetical 1

Background Facts:

- Online travel agents (OTAs) are platforms used by travelers to find and book hotels.
- Nearly all Competopian hotels list all their rooms on both OTAs serving Competopia.
- 60% of the OTA bookings for Competopian hotels are made through **BestValueBed (BvB)**.
- 40% of the OTA bookings for Competopian hotels are made through **Find-a-Room (FaR)**.
- Travelers pay no booking fees, but hotels pay 10% commissions on bookings through **BvB** or **FaR**.
- Additional facts are found in Hotel Booking Patterns on Competopia (part of this package).

Online Hotel Bookings (OHB), which has never operated in Competopia, complained to the Competopian Competition Commission (CCC) that it does not operate in Competopia because **FaR**'s contracts with hotels include Price Parity Agreements (PPAs) prohibiting the hotels from offering through an OTA any room, rate, or package that is more favorable than the hotel's offerings through **FaR**. Initial enquiries tend to substantiate what **OHB** says about the **FaR**'s PPAs.

Questions for discussion:

1. What are **FaR**'s shares of online bookings and total bookings?
2. Are those shares high enough to give **FaR** substantial leverage in bargaining with hotels?
3. If **FaR** has substantial bargaining leverage over hotels, does that make it dominant?
4. What does dominance mean in the case of a platform serving two distinct user groups?
5. Assuming **FaR** is dominant, should the CCC be concerned that its PPAs exclude **OHB**?

Hotel Booking Patterns on Competopia

Prepared especially for Hoolton Hotels Ltd

Society of Survey Specialists



SSS conducted an Internet survey to determine how travelers shop for hotels in Competopia. The sample of 2469 recent Competopia visitors was stratified to match the distribution of countries of origin for all visitors to Competopia.

The principal insights of **SSS** expert analysis are these:

80% of bookings are made on-line.

80% of on-line bookings are through an OTA.

90% of travelers booking through an OTA visit only one OTA site.

70% of travelers find OTAs either essential or of significant advantage.

Table 1. Method Used to Book Most Recent Trip to Competopia

BvB	FaR	Hotel Website	Off-line
948	632	395	494

Table 2. Sites Visited Before Booking Most Recent Trip to Competopia

	BvB	FaR	Hotel Website
Booked on BvB	948	83	23
Booked on FaR	75	632	17
Booked on Hotel Website	67	56	395
Booked Off-line	112	68	387

Table 3. Respondent Attitudes on the Utility of Using OTAs

Essential	Significant Advantage	Some Advantage	No Advantage
1111	717	274	367

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OTA Hypothetical 2

Background

The basic facts are those in OTA Hypo 1. Additional facts are found in Hotel Booking on Competopia (which not the same as the survey used with OTA Hypo 1).

Hoolton Hotels (HH), the second largest chain operating in Competopia, has complained to the Competopian Competition Commission (CCC) that **BvB** insists on a Pricing Parity Agreement (PPA) prohibiting **HH** from offering on its own website “any room, rate, or package that is more favorable than the hotel’s offerings through **BvB**.”

HH argues that: (1) **BvB** has enough loyal users that it cannot gain from pulling all of its listings from **BvB**; (2) withholding a fraction of its listing from **BvB** would be beneficial to both **HH** and its customers, but **BvB** refuses to do business that way, and (3) withholding a fraction of its listing from **BvB** would not constitute free-riding.

HH explains that success in the hotel business required effective “revenue management” and directs the CCC to courses offered by Cornell University and academic papers. This entails complex dynamic pricing. Not only do room rates vary by the day of the week, the season of the year, and the schedule of nearby events. The rate offered for a particular room on a particular day also varies over time, depending on what booking information reveals about demand. Selling through OTAs does not preclude revenue management, but it does limit its effectiveness. OTAs allow only one price change on a room per day, and they engage in some of their own revenue management strategies.

HH states that it has determined that effective revenue management is possible with the use of OTAs only if some of the room inventory is not made available through the OTAs. Optimally, the amount of withheld inventory should vary, but at least 10% is needed. **HH** states that it had withheld inventory from **BvB** until recently. The contract between **HH** and **BvB** was set to expire in September 2016. **HH** expected to renew without any changes in terms, but **BvB** informed **HH** that it would no longer allow **HH** to list only part of its offerings on its site. **HH** unhappily agree to a new contract containing the PPA, which **HH** understands to prohibit withholding any inventory.

Questions for Discussion

1. Assuming the facts are as **HH** asserts, would withholding inventory constitute free riding on **BvB**?
2. What is the best theory under which the PPA is anticompetitive?
3. With an OTA share of 60%, is **BvB** necessarily dominant?
4. Could an exclusive contract with **FaR** make sense for **HH**? If so, can **BvB** be dominant?
5. Should the CCC take any action against **BvB**’s PPA?

Hotel Booking on Competopia

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80% of on-line bookings are through an OTA.

70% of travelers find OTAs either essential or of significant advantage.

30% of travelers booking through an OTA visit only one OTA site.

Method Used to Book Most Recent Trip to Competopia

BvB	FaR	Hotel Website	Off-line
948	632	395	494

Sites Visited Before Booking Most Recent Trip to Competopia

	BvB	FaR	Hotel Website
Booked on BvB	948	672	23
Booked on FaR	438	632	17
Booked on Hotel Website	67	56	395
Booked Off-line	112	68	387

Respondent Attitudes on the Utility of Using OTAs

Essential	Significant Advantage	Some Advantage	No Advantage
1111	717	274	367