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Google-Hotel Travelopoly

The search giant works with hotels to hurt travel competition.



The Expedia Inc. logo is displayed on a model of an aircraft at the company's offices, Hong Kong, Oct. 13. PHOTO: ANTHONY KWAN/BLOOMBERG NEWS

By

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More than 100 million Americans are expected to travel during the holidays, and many will search for lodging online. But travelers may unknowingly pay more and fail to see all of their options because some major hotels have ganged up with Google to undercut competition.

Online travel agencies like Expedia, Priceline and Travelocity have replaced brick-and-mortar agents by offering consumers more choice and convenience at a lower price. These OTAs purchase inventory from wholesalers and then market rooms at a discount to consumers in addition to flights, rental cars and travel packages. Many also have agreements with companies like American Express, Costco and Delta to market their inventory.

OTA websites let travelers sift through hotel offers based on price, brand, location, amenities and guest rating, among other search filters. OTAs earn a roughly 20% commission from hotels for each reservation they book, which covers their cost of marketing, inventory acquisition, customer support and payment processing.

As hotels get squeezed by Airbnb and home rental sites, they have begun complaining that OTAs are eating into their profits. Several major hotels are now trying to use Google as a counterweight, while Google is exploiting its search dominance to steer consumers to its travel service.

Some 60% of travelers begin trip-planning on Google. The search giant's travel business is worth an estimated \$100 billion and will generate \$14 billion in revenue this year, according to Skift Research. Google makes money on travel in two ways. First, it auctions ads that appear above generic search results. Businesses can bid on key words such as "Hotels in Houston" or "Houston Hilton." Google selects auction winners based on the maximum price a business is willing to pay for each ad click and the likelihood a user will click on the ad.

Google also operates its own "meta" hotel search that appears below auction ads and above generic search results. If users search for a hotel, a box displaying offers from hotels and OTAs will pop up. Travellers may benefit from being able to use Google's meta-search to compare offers from hotels and OTAs on a single interface. Competition from Google's meta-search could also spur OTAs to improve their services.

The problem is that Google is working with hotels to stifle competition. Hotels want to drive travelers to their websites to avoid paying commissions to OTAs. They also know that travelers searching for “Houston Hilton” are more likely to book a room at a Hilton than those who query “Hotels in Houston.” Several hotels have inserted terms in their global agreements with large OTAs that prohibit the agencies from bidding on key word ads that include their brands or trademarks.

But these agreements aren’t binding on small OTAs, and earlier this year two major hotels complained to Google about small OTAs bidding on branded key words in advertising search auctions. Several hotels have also threatened to sue for violating trademark protections, though their conduct is protected by well-established copyright law.

After receiving complaints from hotels, Google began to pressure small OTAs to submit to hotel demands. A spokesperson for Google says the company doesn’t restrict keyword ad bids, but we’ve been told by a small OTA that Google applies rules in a way that restricts trademarks in their hotel ad titles and URLs.

One of the only remaining alternatives for OTAs to draw Google traffic is its meta-search. Yet to appear in Google’s meta-search, businesses must pay a price per click that is often three times as much as for keyword searches. Google also charges a 10% to 15% commission on net revenues from reservations booked through its meta-search. Google thus gobbles up most of the profits that OTAs earn from hotel commissions without incurring substantial overhead costs.

Google also requires OTAs to give its web crawlers access to proprietary information including room availability, descriptions, pricing and custom bundles and other data—information that OTAs typically keep closely held from competitors. Google says advertisers only need to provide data that makes its ads useful to people and that advertisers are in control of how much information they share. But in practice the data that Google requires can give the search engine insight into demand and available inventory that it can then use to undermine OTAs—and Google controls 80% of search.

Restricting competition in branded keyword ad auctions means many consumers won't see or receive the lowest price deals. Meanwhile, OTAs may have to seek higher commissions from hotels or reduce their discounts to offset the payments they must make to Google to appear in its meta-search. This would likely cause prices to rise. Mom-and-pop hotels would also suffer since they have smaller marketing budgets and may be unable to afford Google's ad rates.

A Google spokesperson says "the online travel industry is thriving and gets more competitive by the day" and that "travel companies are some of the most avid users of our ads offerings." But competition and choice will decline if Google exploits its market dominance to squeeze rivals. Google ought to compete on fair terms by opening its auctions to all players and stop favoring its meta-search. Otherwise, regulators may soon ask if the search giant is abusing its market power.

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