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## **THE IMPACT OF DIGITAL PLATFORMS ON COMPETITION IN THE SOUTH AFRICAN TOURISM INDUSTRY**

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## Executive Summary

Digital platform power and the impact on competition in markets is of increased concern internationally and has resulted in various investigations, enforcement decisions and policy development. In South Africa digitalisation has meant increased use of platforms in numerous industries. This paper seeks to understand the nature and impact of the growing power of digital platforms for businesses in South Africa through the lens of developments in tourism.

It seeks to firstly, to map the landscape of use of digital platforms and data in tourism with a specific focus firms that appear to have market power. Secondly, it aims to investigate the nature of these platforms and the manner in which they alter competitive dynamics in the underlying industries, for example by playing a gatekeeper role, controlling access to customers or markets or changing the terms on which companies can compete in offline markets. Thirdly, we seek to understand the extent to which competitive interventions that have been enforced or mooted in other countries, such as restrictions on most-favoured nation clauses by hotel booking platforms have relevance to the South African context.

Digitalisation has had numerous benefits for consumers and firms, including SMEs through changing a range of functions including (i) as a channel to reservations and (ii) marketing and advertising. This has meant that hotels (including small hotels) and tour operators are able to access a broader range of customers than they were previously able to. This has been especially beneficial for those that access international markets. However, given that market structures in these industries benefit from network economies that could create “tipping” to dominance, going forward these markets require a measure of monitoring.

In tourism markets in South Africa there are certain platforms that appear to have high levels of market power for a subset of hotels. In terms of channels to consumers these platforms include online travel agencies such as booking.com. These platforms often use most favoured nation (MFN) clauses which prohibit hotels from charging different prices to other platforms or charging lower prices on their own website. This is also known as rate parity. In South Africa the strong enforcement of MFN clauses and rate parity across OTAs and hotels websites, appear to be dampening competition in the market. This is limiting the extent to which price discounts can be given to drive volumes and is also potentially impeding the emergence and growth of competing platforms outside of big tech (including local platforms). Given the clear precedent in other countries in which forms of MFN clauses have been found anticompetitive and prohibited, this is an area for the Competition Authorities to examine in further detail.

Like most markets, in tourism there is a strong dependence on Google as a platform for search and advertising. This means that it is an essential channel to customers. The dominance of certain companies (such as Google) in areas such as search and mapping seems to be being leveraged into other online markets such as tourism meta search through the Google Hotels offering. While this is providing innovation, the increased dominance in routes to market that this is creating should be monitored.

## 1. Introduction

Digitalisation has changed the way in which many industries operate, including through allowing companies to connect with customers electronically and to collect and leverage the benefits of large data sets. In industries such as tourism, digitalisation has had many market-enhancing benefits, allowing smaller and independent companies to access a broader customer base than was historically possible.

However, given some of the features of digital markets and platforms, including the fact that many of these markets are two-sided, have network effects and benefit from large scale economies (particularly of data). there is the potential for development and exertion of market power. As such, digital platform power and the impact on competition in markets is of concern internationally and has resulted in various investigations, enforcement decisions and policy development, including in the tourism sector.

In South Africa digitalisation has meant increased use of platforms in numerous industries. This paper seeks to understand the nature and impact of the growing power of digital platforms for businesses in South Africa through the lens of developments in tourism.

The study used a combination of qualitative and quantitative data. Primary data was collected from stakeholders in the value chain in face-to-face, telephonic and Skype interviews with a limited number of key informants in the hotel and tourism industry. Data was also collated from online sources including company websites and the annual reports of listed companies. Secondary data was collated from a range of sources including Statistics South Africa, and commercial data sources including Similarweb. This was triangulated with a review of academic literature, and news articles.

In this paper, we consider the two industries in turn.

- First, we seek to map the landscape of the use of digital platforms and data within these industries.
- Second, we aim to investigate the nature of these platforms and the manner in which they alter competitive dynamics in the underlying industries, for example by playing a gatekeeper role, controlling access to customers or markets or changing the terms on which companies can compete.
- Third, we seek to understand the extent to which competitive interventions that have been enforced or mooted in other countries in these industries, such as restrictions on most-favoured nation (MFN) clauses by hotel booking platforms and open banking in the banking sector could potentially mitigate some of the competitive harm in the South African context.

We conclude by drawing together key insights and policy recommendations.

## 2. Hotel platforms in South Africa

### 2.1. Context

The growth in digitalisation and improvements in access to internet services internationally has had a sweeping impact on the operations and landscape of the tourism industry. This is for a variety of reasons. Firstly, digital platforms and digitalisation creates the ability for consumers to access information, compare offerings and purchase goods and services required for travel (such as accommodation, car hire and tours) with relative ease despite not

being in close proximity to the goods and services being sold. Secondly, digital platforms and processes have reduced transaction and operational costs. Thirdly, digital platforms and the internet have also influenced how travel is consumed. Online review systems have the potential to decrease information asymmetry while travel experiences can be eased through tools such as mapping apps and language translation services. These changes have the potential to benefit small and medium enterprises as the internet plays an important role in connecting businesses with travellers that they would not ordinarily be able to easily reach. However, despite the benefits that digitalisation can bring to the tourism industry there have been some drawbacks and concerns raised in other jurisdictions.

Hotels and accommodation providers operate a range of functions including reservations, front desk and operations management (such as check-ins and check-outs, or managing housekeeping functions), billing, financial/accounting, and marketing and advertising. Digitalisation of many of these functions has incrementally changed the tourism industry over several decades.

In what follows we describe the impact that digitalisation has had on the industry in South Africa by focusing on role that platforms have played in two of these functions (i) marketing and advertising and (ii) as a channel to reservations. We use this to discuss the potential impact on competition of platforms in light of international experiences.

## **2.2. Platforms used for booking**

Booking and reservation systems have been undergoing a process of digitalisation for a few decades. For example, offerings in computer reservation and global distribution systems (GDS) which had previously been developed to allow travel agents to connect with flight reservation centres included hotel reservations from the late 1970s.<sup>1</sup> However, while earlier forms of digitalization were largely invested in and used with a focus on business to business (B2B) transactions, in the mid-1990s the growth of the internet introduced a range of digital innovations that were consumer-facing. For hotels the most important consumer-facing developments related to changes in the reach of electronic reservations through the emergence of online travel agencies (OTAs) or booking platforms that allowed customers to book directly without an intermediary such as a travel agent.

Many of the largest Online Travel Agents launched in this early period. For example, Microsoft launched an online travel agency Expedia in 1996.<sup>2</sup> This subsequently was publicly listed and grew to be one of the largest booking platforms. At the same time an early iteration of booking.com, booking.nl was launched, and following various mergers (including its acquisition by US group Priceline) relaunched as Booking.com in 2006<sup>3</sup> and subsequently grew both organically and through acquisitions. A range of other websites such as Lastminute.com and Travelocity which allowed for online bookings and Tripadvisor, a review website was also launched in the 1990s. These have grown into some of the largest booking platforms internationally. Furthermore, these companies have grown through horizontal and vertical acquisitions and organic growth into adjacent markets. The use of various online

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<sup>1</sup> Kang, Brewer and Blaglu (2007), Profitability and Survivability of Hotel Distribution Channels: An Industry Perspective, Journal of Travel and Tourism Marketing, Vol. 22(1) 2007 available at [https://www.researchgate.net/profile/Bomi\\_Kang2/publication/233090288\\_Profitability\\_and\\_Survivability\\_of\\_Hotel\\_Distribution\\_Channels/links/5cd97deba6fdccc9dda8612e/Profitability-and-Survivability-of-Hotel-Distribution-Channels.pdf](https://www.researchgate.net/profile/Bomi_Kang2/publication/233090288_Profitability_and_Survivability_of_Hotel_Distribution_Channels/links/5cd97deba6fdccc9dda8612e/Profitability-and-Survivability-of-Hotel-Distribution-Channels.pdf)

<sup>2</sup> <https://www.expediagroup.com/about/history/>

<sup>3</sup> <https://www.booking.com/content/about.en-gb.html?aid=356980;label=gog235jc-1FCBQogqJCBWFib3V0SDNYA2j7AYgBAZgBCbgBF8gBDNgBAegBAfgBDYgCAagCA7gC2Zf88AXAAgE;sid=95ca5c4c98374dc1ab8399f4aff5e440>

services in tourism has grown significantly over time and as of 2015 it was estimated that online revenue accounted for 21.6% of global travel.<sup>4</sup>

### 2.2.1. Market participants

At present, there are various companies that operate within the online travel sector. Some of the main types of companies are as follows:<sup>5</sup>

1. *Online travel agencies (OTAs) which sell travel services.* They provide search and booking services to customers and marketing and online booking functionality to providers and provide matching services online using a traditional agency model. These platforms primarily operate on a commission basis. As discussed in more detail later, large OTAs include Booking.com and Expedia. In South Africa, the majority of platforms charge around 15% to smaller and independent hotels and hotel groups for basic listings. This can be more in certain cases. For example, booking.com charges an additional 3%<sup>6</sup> to be part of a Preferred Partner Network which boosts visibility subject to meeting certain review requirements.<sup>7</sup>
2. *Peer to peer platforms:* Peer-to-peer platforms such as Airbnb allow for sharing of informal accommodation. These platforms vary, but Airbnb charges a commission of around 3% to owners, and an additional service fee to customers.
3. *Meta search site providers:* These sites aggregate information relating to one or more types of travel services and create an interface through which consumers can compare offerings across providers. This includes websites such as Google Hotels, Hotels Combined, Trivago, Tripadvisor and Kayak. OTAs, as well as hotels, pay a fee to have their link included on these portals. There are often both free and premium listing options. Some work on a commission basis while others are flat fees and can be quite expensive.
4. *Review platforms:* These include review and information sharing platforms (such as Virtual Tourist and aspects of Tripadvisor.com) which allow users to rate and review service providers.

On the supply side providers include channel managers who aggregate and manage availability and pricing across a wide number of channels for hotels. This can include direct sales, online booking platforms, peer-to-peer platforms and global distribution systems.<sup>8</sup>

As listing on OTAs or booking platforms (with an exception of certain meta search sites) is fairly costless to the accommodation provider, and since channel management systems make co-ordination of availability and pricing across the different platforms simpler, most South African establishments multi-home and are listed on a variety of local and international platforms.<sup>9</sup>

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<sup>4</sup> Hong J (2018) Rise of the Sharing Economy and the Future of Travel and Tourism Industry. J Hotel Bus Manage 7: 180

<sup>5</sup> European Commission, Case M.8416- The priceline Group/Momondo Group Holdings, Brussels, 17.7.2017, available at [https://ec.europa.eu/competition/mergers/cases/decisions/m8416\\_913\\_3.pdf](https://ec.europa.eu/competition/mergers/cases/decisions/m8416_913_3.pdf)

<sup>6</sup> Interview with hotel manager

<sup>7</sup> <https://partner.booking.com/en-gb/help/growing-your-business/all-you-need-know-about-preferred-partner-programme>

<sup>8</sup> Interview with hotel manager

<sup>9</sup> Interviews with hotel owners, digital marketing company.

Many of the largest companies internationally are vertically integrated into different components of the travel value chain and often own multiple websites and brands. There are two key competitors internationally namely Booking Holdings and the Expedia Group. Both are active in the South African market:

*Booking Holdings:* Booking Holdings own a range of booking platforms used in South Africa. This includes Booking.com, the largest booking channel in South Africa. They also own a range of other brands including competitor online booking platform Agoda, aggregator Kayak, as well as adjacent companies Priceline (an online travel agency which also offers hotels as well as flights and cars) and Opentable which is a restaurant booking system. Booking.com is one of the greatest drivers of volumes in the South African market and has 18 000 properties listed. One establishment interviewed that caters largely to foreign visitors stated that 90% of their sales were through booking.com.

*Expedia Group:* The Expedia Group owns various online booking platforms including Expedia.com, Hotels.com, Travelocity, Hotels.com, eBookers, Orbitz, Cheaptickets, and Wotif group which also have several websites primarily focused on Australia and New Zealand, Homeaway which provides alternative accommodation, VacationRentals, bedandbreakfast.com which provide rentals, Hotwire and Trivago which is a meta search aggregator. It has business to business (B2B), corporate solutions through Expedia Partner Solutions and companies focused on agents (Egencia and Classic Vacations). In adjacent markets they own Expedia Local Expert which provides activities and experiences, Expedia CruiseShipCentres which focuses on cruises and SilverRail. Expedia has various wholesale activities which create relationships between other market participants. For example, it has signed exclusive deals to manage wholesale rates for the Marriot group on an exclusive basis and even competitor portal HRS uses inventory from Expedia as part of Expedia Affiliate Network.<sup>10</sup> Many of these websites (such as Expedia.com, Hotels.com etc) are active on the South African market, but interviews suggest that for many establishments this is to a lesser extent than Booking.com

*Tripadvisor:* Tripadvisor began as primarily a review site, but now also is an aggregator for direct sales through other platforms and through its own platform.

*AirBnB:* AirBnB is an international peer-to-peer sharing platform. However, smaller hotels and apartments are also able to list.

*Other international websites:* A range of other international platforms are present in the South African market. These include HRS, Hostelworld, Hotelbeds, Venere.

*Local OTAs and booking platforms:* There are also various local booking websites that are used, many of which are niche or specialist websites. The largest local participant is Travelstart which also owns SafariNow and Travelground which also owns Lekkerslaap. Others include SA Places, Rooms for Africa, and SA Venues. Companies that have platforms for travel as part of other offerings such as local airline Kulula and healthcare group Discovery Vitality are also popular.

While the market for travel service providers is usually quite dispersed those for booking platforms and services can be more concentrated. Statista estimated that in 2017 the market share in terms of booking platforms in Europe was Booking.com with 65.5%, followed by Expedia with 12.6% and HRS with 7.8%.<sup>11</sup> While precise market shares are not available for South Africa indications are that is also fairly concentrated. The extent to which different OTAs

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<sup>10</sup> <https://skift.com/2017/06/27/german-online-booking-giant-hrs-tilts-further-toward-corporate-travel/>

<sup>11</sup> <https://www.statista.com/statistics/870046/online-travel-agency-ota-market-share-in-europe/>

provide a source of customers for a hotel can be a result of various factors. This includes the make-up of customers from different geographical markets given that different websites are popular in different markets (interviewees noted that European travellers often use booking.com, US travellers use Expedia and Asian travellers use Agoda). It can also reflect the extent to which platforms have spent on advertising. For example, in Gauteng booking.com has several Google campaigns, while in certain coastal or more remote areas less spending by bigger platforms has opened the market to smaller local platforms who then generate more bookings.<sup>12</sup> It can also differ depending on the target clientele.

In South Africa at present, OTA channels are the highest channels for many providers. On an aggregated basis the top booking channels in South Africa in 2018 as published by the hotel cloud platform SiteMinder were as follows:

**Table 1: Ranking of channels for providers on SiteMinder platform**

<b>Channel</b>	<b>Type of provider</b>
1. Booking.com	OTA
2. Expedia	OTA
3. Hotelbeds (incl. GTA + Tourico)	Wholesale
4. Hotel websites	Direct
5. Agoda	OTA
6. followme2AFRICA	Wholesale
7. Global distribution systems	Wholesale to agents
8. Tourplan	Wholesale
9. HRS	Wholesale and OTA
10. Hostelworld Group	OTA
11. Thompsons Africa	Wholesale
12. Mr & Mrs Smith.	OTA

As such, for Siteminder customers, the largest channels were OTAs owned by Booking.com and Expedia. It can be noted that Agoda (the fifth largest channel) is also owned by the Booking group. As such the largest online platforms have, at least for some proportion of hotels overtaken traditional channels to customers such as direct bookings and agency bookings. The proportion of OTA bookings compared to other channels may differ depending on the characteristics of a particular hotel. For example, hotels that depend a lot on corporate conferencing or weddings may depend less on OTA as a proportion of sales.

However, it is clear that at least for a subset of hotel (particularly those that depend heavily on international bookings), booking.com and other international platforms (to a lesser extent) are key channels to the customer. This is often the case even if a customer uses a meta search site, since these OTA platforms often bid for visibility on these sites.

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<sup>12</sup> Interview with digital marketing company, primary research

### 2.2.2. Pricing

There is a level of opacity about commissions being charged by platforms to different hotels in South Africa.

Booking.com has different rates but generally charges commissions of around 15% to independent hotels in South Africa (though this goes up if a preferred provider status is paid for). Agoda similarly has a commission of around 15%. Interviewees have stated that some smaller platforms offer lower commission rates, and that AirBnB has a different model in that the charge is to the consumer rather than the hotel.

Larger hotel groups often negotiate with platforms on an international basis and there is little information available on the amount paid relative to smaller hotels. The larger chains approached for this study declined to be interviewed.

In terms of pricing, a common practice for OTAs internationally, and one that has raised controversy from a competition perspective is rate parity or the requirement for hotels listing on a platform to agree to a clause requiring them to not offer lower prices on any other website or platform (wide MFN) or on their own platform (narrow MFN). We discuss this in detail later in section 0. However, it provides some context to the pricing patterns in South Africa.

Interviews with hotels suggest that rate parity exists in South Africa in both a narrow and wide form. Interviewees have stated that their understanding is that websites use data screening mechanisms to monitor prices and that if there is a discrepancy between prices across platforms action is taken. This appears to be quite subtle at present and with interviewees noting that this usually occurs through emails from booking platforms querying why their rates were lower on other websites or on the hotels own website and asking them to rectify the discrepancy. Overall, however, the industry tends to maintain rate parity across sites. There are some platforms who do discount, usually through following a different strategy of purchasing rooms wholesale and discounting or who unilaterally take money off their commission and change the advertised price. This sometimes leads to hotel owners being contacted by other OTAs for being in breach of rate parity and they then need to request that the errant OTA adjusts its price. This is a source of stress for these owners.<sup>13</sup>

Rate parity also seems to be monitored by price matching provisions on the customer side. Some large platforms in South Africa offer a price matching guarantee. For example, on the booking.com pages state “we price match” going on to promise that “*You can claim a refund for the difference if you happen to find your reservation cheaper on another website.*” This is subject to exclusions for three types of properties, namely loyalty or membership programmes, platforms that do not show the exact hotel until after booking and Booking.com partners.

Agoda similarly has a “Best Price Guarantee” stating “*If you have reserved a hotel room through Agoda and then show us that you can book the same room for the same dates and conditions at a lower rate that is viewable and bookable on another website, we will, at our sole discretion, either match that rate or credit the difference in AgodaCash to your Agoda account.*”

A comparison of prices across platforms using Google Hotel Ads suggests that regardless of the existence of parity restrictions there is minor variation across different hotels and groups (Table 2 and Table 3). Rates are often, but not always (particularly for independent hotels) the same across booking platforms in the same group. Other patterns that emerged are that international groups tend to be advertised more on the large platforms while smaller and more

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<sup>13</sup> Interviews with hotel managers

local groups are displayed on local platforms (Travelstart and SafariNow) as well as websites that are not owned by the largest companies.

**Table 2: Prices across platforms for a sample of Johannesburg hotels**

	Holiday Inn Sandton (International group)	Protea Hotel Marriot Wanderers (International group)	Southern Sun OR Tambo (Large local group)	Sun1 Hotel Wynberg (Large local group)	The Peech Hotel (Independent)	Premierre Classe (Independent)	Garden Top Hotel (Independent)
Hotel own site	1665	2068	1875	579	3950	800	750
Booking.com	1485	2128	2098	610	4388	756	675
Agoda	1485	2128		610			675
Hotels.com	1480	2122	2097	609	3933	836	749
Orbitz	1480	2122	2097	609			
Travelocity	1480	2122	2097	609			749
Travelstart					3950	800	
SafariNow					3950	800	
Find Hotel	1485	2124	2091	607		756	675
Trivago			1894			795	850
Tripadvisor						795	748
Trip.com	1510						
Etrip	1485	2124	2091	607		756	675
Zen	1538						
Make my trip						752	
Hostelworld							848
<i>Lowest platform</i>	1480	2122	1894	607	3933	752	675
<i>Highest platform</i>	1538	2128	2098	610	4388	836	850
<i>Difference between highest and lowest platform</i>	58	6	204	3	455	84	175
<i>Difference between highest and hotel</i>	-127	60	223	31	438	36	100

<i>Difference between lowest and hotel</i>	-185	54	19	28	-17	-48	-75
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**Table 3: Prices across platforms for a sample of Cape Town hotels**

	Hilton Cape Town (International group)	Southern Sun Cape Sun (Large local group)	Taj Cape Town (International group)	City Lodge V&A (Local group)	Rouge on Rose (Independent)	Table Bay Hotel (Large local group)	Gardens Centre Holiday Apartments (Independent)
Hotel own site	4821	2995	4695	1990	2208	5474	850
Booking.com	3075	3021	4499		2040	5474	1060
Agoda	3075			2010	1757	5474	690
Hotels.com	3061	3020	4721	2001	2031	5412	849
Orbitz	3061	3020	4721	2001	2031	5412	849
Travelocity	3061	3020		2001	2031	5412	849
Travelstart				2010	2400		
SafariNow				2010	2400		
Find Hotel	3065	2992			1756	5436	
Tripadvisor		3010	3123		2020	5480	
Trip.com	3677						
Etrip			3515		1756		
<i>Lowest platform</i>	<i>3061</i>	<i>2992</i>	<i>3123</i>	<i>2001</i>	<i>1756</i>	<i>5412</i>	<i>690</i>
<i>Highest platform</i>	<i>3677</i>	<i>3021</i>	<i>4721</i>	<i>2010</i>	<i>2400</i>	<i>5480</i>	<i>1060</i>
<i>Difference between highest and lowest platform</i>	<i>616</i>	<i>29</i>	<i>1598</i>	<i>9</i>	<i>644</i>	<i>68</i>	<i>370</i>
<i>Difference between highest and hotel</i>	<i>-1144</i>	<i>26</i>	<i>26</i>	<i>20</i>	<i>192</i>	<i>6</i>	<i>210</i>
<i>Difference between lowest and hotel</i>	<i>-1760</i>	<i>-3</i>	<i>-1572</i>	<i>11</i>	<i>-452</i>	<i>-62</i>	<i>-160</i>

### **2.3. Platforms used for marketing and advertising**

For hotels there are various means of reaching a customer. This includes advertising through traditional means such as advertising in newspapers, magazines, radio and television advertisements to build brand awareness. There are also various form of digital advertising which are increasingly important both in building awareness and as direct routes to customers. Estimates from Statistica show that tourism makes up 5% of digital marketing spend in South Africa.

In South Africa there are various options available for digital marketing.

#### *2.3.1. Search*

One route to customers is through search. While search results are often organic, companies can also engage in search engine optimisation. Search engine optimisation is a system based on improving website to ensure that they show up in internet searches. As Google has a 97% share in online search in South Africa<sup>14</sup> this to a large extent means optimising search criteria on Google. Search in tourism can be done through a general search engine or via a booking platform. This variation is discussed in the next section. Companies can also pay for “boosting” or ensuring that their advertisement or product is shown with more visibility on a search (generally with an indication that the post is sponsored or an advertisement). Our interviews suggest that even smaller establishments often engage digital advertising companies to assist in digital advertising and search engine optimisation.

Google also offers businesses an option to list under “Google My Business” which allows for the creation of a free business account that lets an entity list their opening hours, address and details, and allows customers to leave reviews. Google has innovated significantly on this offering in terms of advertising offerings to the tourism sector by launching special paid offerings to companies in the sector in 2019. This is discussed further in the section on meta search sites.

#### *2.3.2. Digital advertising*

Companies can pay to have their advertisements displayed through digital adverts. These can take the form of visual or text adverts and can appear for example, on the side of a search or on top of a search or on a website (such as a news or travel website). Digital advertisements can be purchased on using a variety of pricing mechanisms including fixed prices or the more common “pay per click”. The most common means of using digital advertising in South Africa is using Google Ads though this can also be done on booking platforms and meta search sites like Tripadvisor and booking.com and on news websites.<sup>15</sup>

Digital advertising is often sold on the basis of dynamic pricing based on demand. This means that certain terms or descriptors can become expensive. Interviewees stated that Google ads and similar can be fairly expensive in high density areas such as Johannesburg and Cape and these adverts are predominantly bought by large international booking platforms who then form the key route to market. In lower demand areas such as coastal areas the prices for search terms are lower and as a result this enables a greater level of advertising to be bought by smaller local platforms and providers.<sup>16</sup>

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<sup>14</sup> Statcounter, Search Engine Market Share for South Africa, January 2020, available at <https://gs.statcounter.com/search-engine-market-share/all/south-africa>

<sup>15</sup> Statistica, Data on Digital Market Outlook- Search, South Africa, available at <https://www.statista.com/outlook/219/112/search-advertising/south-africa>

<sup>16</sup> Interview with digital media company

### 2.3.3. Meta analysis sites

Meta search sites such as Tripadvisor, Trivago and Google Hotels are other means of accessing consumers. These sites aggregate accommodation options from different platforms and channels and display them in a format that enables comparison and choice. Consumers can then purchase via a particular platform by clicking through to its website.

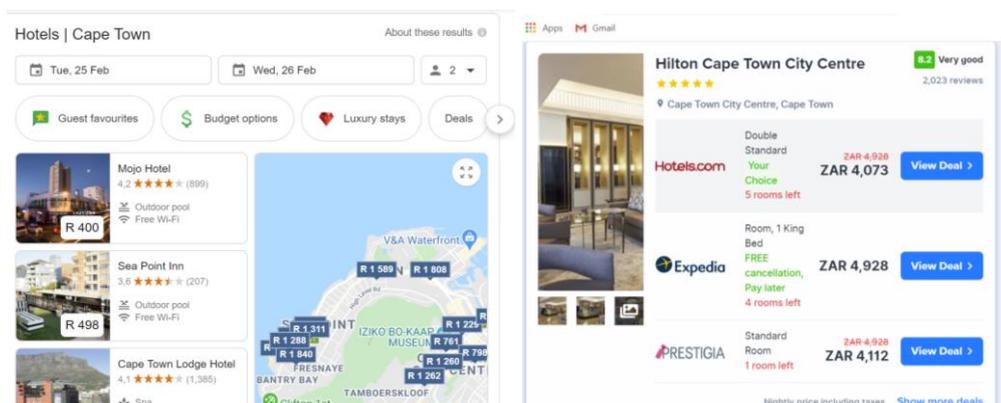
Inclusion on these sites also follow various models including fixed fee and “pay per click”. Hotels can list their own websites on a meta search site but compete head to head with booking platforms for inclusion.

Large technology companies that have entered the meta search space have leveraged off their popularity in adjacent markets. For example, Tripadvisor leverages off its highly popular review offering to promote hotels through its aggregation offering. Google, which has more recently entered this market with its Google Hotel Ads offering, also leverages off its strength in adjacent markets through three components (i) visibility on Google Search, (ii) integration with Google Maps and (iii) integration with Google Assistant.

A Google Hotel Ads listing allows hotels to list their property in searches for hotels. This includes the provision of a standardised listing that can show photographs, amenities, prices and link to bookings at the hotel. The price structure is dynamic but includes variations such as commission on a pay-per booking or pay per completed stay, a maximum cost per click bid and an automated cost per click bid. Google Hotels is paid-for and is a more complex system than the Google Business listing or an advert as it can connect to a hotels pricing and booking options, therefore requiring a greater degree of technical integration across the business and Google systems.

From a customer viewpoint the Google Hotels offering is as follows. When a person searches for hotels on Google they see organic hotel listings. If they click they get taken to a full view of a map with hotels that match their search criteria, with particular hotels highlighted. Clicking through to a particular hotel provides a meta search site view which aggregates a variety of different prices and booking options from different sources including booking platforms. The single hotel view also provides reviews (which links to reviews across a range of booking platforms), and location, which shows nearby locations on a Google Map and allows a user to search for directions, nearby public transport stops or sights, hotel details and photographs. As such there is extensive integration into areas in which Google has strong market power (such as Maps)

**Figure 1: Google Hotel Ads screenshots (i) for hotels in Cape Town and (ii) for the Hilton Cape Town**



For a company to list their website on a meta search site is often expensive and interviewees stated that it is often not feasible for smaller firms pay for a link to their own website to Google Hotels or other meta search sites, which means that customers connect via OTA platforms (which take a commission) are often the default option.

Our analysis of a random group of hotels shows that local (SafariNow and Travelstart) and smaller OTAs are more likely to pay to list on meta search sites for listings for smaller and independent hotels and hotels in less dense areas.

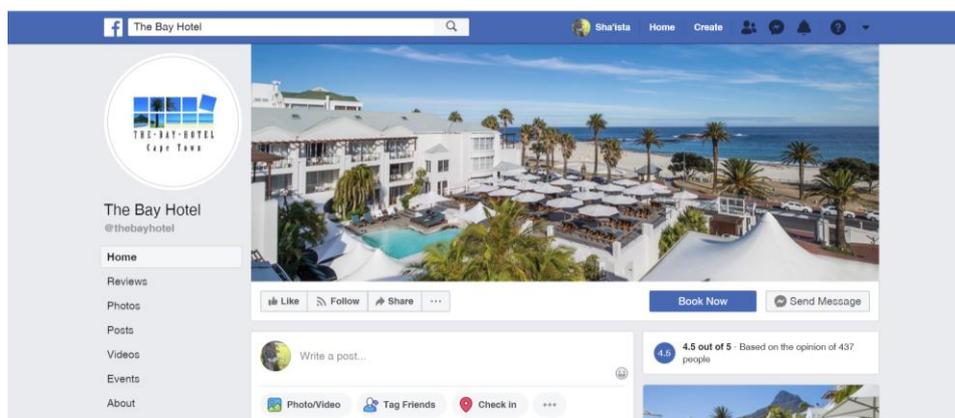
Other meta sites include tourism type sites which showcase a range of options, sometimes within a particular region or tourist trail.

#### 2.3.4. Social media

A third route to customers is via advertising and contact via social media. Social media includes advertising via platforms such as Instagram and Facebook. Hotels are able to create business pages on these platforms which allows individuals to follow it and thereby get information, post reviews and lets the hotel post pictures and details. On Facebook there is the option of a “Book now” button which takes the user through to the hotels booking page, or a messaging function which allows a user to message the property.

The difference between search and social media platforms as routes to customers is that while search is often used for broader searches, social media creates greater engagement with customers who have already connected with the particular establishment.

**Figure 2: Screenshot of facebook page for The Bay Hotel**



### 3. Conclusions

In terms of digital advertising, interviewees concurred that Google through its organic search, paid for search and aggregation offering is a key platform used as a route to customer. Furthermore, social media platforms are seen as slightly differentiated and more useful as a communication tool, to advertise specials to repeat guests and for reviews.

#### 3.1. Potential impacts on competition in the South African context

While the hotel industry has arguably become more competitive as a result of the introduction of OTAs and other online options (such as peer-to-peer letting), there are concerns over the

fact that as online platforms in the tourism industry are becoming more concentrated there is increased scope for anticompetitive practices.

OTAs and meta search sites, as well as online advertising platforms (including search and social media) are two-sided markets with network effects. As such, there is the potential for dominance to be reinforced. Anticompetitive practices have been found in online booking platforms in numerous jurisdictions internationally. As mentioned previously, the main source of competition controversy has occurred through the use of “price parity” or “most favoured nation” clauses. Price parity clauses require that the supplier provides a customer at a price no higher than or at terms no less agreeable than that offered to other customers. We discuss this further in section 3.1.1. The role of dominant platforms as gateways to customers through search, social media and meta search is discussed in 3.1.2.

Other policy concerns that have been raised include concerns related to the industry mis-selling or misleading consumers over products. This concern has been examined and remedied by the UK Competition and Markets Authority.<sup>17</sup> There have been concerns raised by industry over the asymmetry in regulation of digital as opposed to bricks and mortar companies. For example, there are concerns over the lack of tax and legislative requirements placed on online platforms as opposed to travel agencies, and of registered accommodation providers compared to providers who let their premises what is termed the sharing economy (such as private homes let through platforms such as Airbnb).<sup>18</sup> These are potential areas for future research in the South African context.

### *3.1.1. Restrictive clauses and their prevalence in South Africa*

Within jurisdictions internationally a key concern with hotel booking platforms has been restrictive contractual clauses that dampen competition between platforms. The main source of competition controversy has occurred through the use of “price parity” or “most favoured nation” clauses. As discussed previously, price parity clause require that the supplier provides a customer at a price no higher than or at terms no less agreeable than that offered to other customers. In terms of hotel booking platforms, there are two key types of clauses used.

“Wide” price parity clauses require that a hotel provides rooms to an online booking platform at least as favourable as those offered to other online and offline distribution channels. Wide price parity clauses are generally seen to be problematic for two reasons. Firstly, they are seen to have the potential to soften competition between platforms. This is because by creating a form of “price floor” they reduce the incentive for the platforms to compete on commission levels. If a platform with a wide MFN agreement increases the commission charged the hotel cannot retaliate by passing the price on via higher prices on for that platform

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<sup>17</sup> For example the CMA in a 2017 investigation (the Digital Comparison Tools Market Study) did an investigation of a range of companies (Expedia, Booking.com, Agoda, Hotels.com, ebookers and Trivago) and found four issues: Failure to disclose the effect of payments on search results, misleading reference prices, misleading presentation of prices and misleading popularity and availability statements. The companies under investigation co-operated with the CMA and voluntarily agreed to firm undertakings not to engage in these practices. Available at <https://www.gov.uk/government/news/hotel-booking-sites-to-make-major-changes-after-cma-probe>

<sup>18</sup> In Turkey booking.com was found to have violated rules on unfair competition based on a complaint by the Association of Turkish Travel Agencies. This was based on the fact that booking.com was found to operate as a travel agency without paying tax. It was then prevented from operating inbound bookings in the country. In several countries concerns over the different rules for Airbnb and travel agencies have also been raised. See <https://www.independent.co.uk/travel/news-and-advice/bookingcom-turkey-priceline-hotels-court-istanbul-ankara-ban-competition-authority-a7658251.html>

compared to others. Instead, they either have to raise prices across all channels or maintain prices and absorb the loss. If multiple competing platforms have wide MFN agreements there is likely to be very little price differentiation in the market. Secondly, they are seen to impede innovation, entry and expansion by new platforms. This is because wide MFNs can be seen to prevent new entrants who would like to gain market share through promotions or lower commissions to induce trial and to form a competitive differentiator. This effect is also enhanced when MFN becomes the industry standard.

“Narrow” price parity clauses require that a hotel does not advertise lower prices on their own website. It does not however, prevent them offering better terms and conditions to other sales channels. Narrow price parity clauses have been somewhat controversial. This is partly because they have some pro-competitive benefits. In particular, they prevent free-riding on booking platforms and thus protect investments made. This is to prevent the situation in which hotels are found on booking platforms, but then booked directly with the hotel at a cheaper rate. However, these too can have various anti-competitive effects. Firstly, they have the potential to replicate the effects of a wide MFN. This is through the fact that suppliers may be hesitant to drop prices on platforms as they do not want to cannibalise direct sales. This also creates a price floor effect. Secondly, narrow MFNs can produce anticompetitive effects in preventing suppliers from investing and innovating in their direct channels.

Several European competition authorities have investigated MFN clauses in the agreements between online booking portals and hotels.<sup>19</sup> While wide clauses have generally been found to be problematic, narrow MFN clauses have been overturned in Germany.<sup>20</sup>

Given the enforcement decisions and the effects of MFNs internationally, a key question is whether there are similar effects in the South African market, particularly as booking.com appears to be a dominant platform for at least some categories of hotels.

From interviews it appears that rate parity is in operation. While some hotel providers have not raised it as a concern, others have noted that it significantly affects their ability to run promotions on their own or other websites to build sales.<sup>21</sup> They are also not able to provide platforms with a lower commission with a lower price. There is a lack of clarity over whether rate parity is contractual or just a practice, though some owners have stated that it is a contractual obligation.

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<sup>19</sup> The UK OFT (now CMA) opened an investigation into online travel agencies in 2010 after concerns were raised by a small agency that IHG, Booking.com and Expedia had agreed to offer bookings at a particular hotel at a rate set and would not offer room bookings at a lower rate. While commitments were reached with the parties this was contested by the meta-search site Skyscanner who argued that the commitments, which allowed for discounting on closed groups limited intrabrand competition as meta-search sites become harder to use to compare offerings.

In 2013 the German competition authority investigated various online booking portals including Booking.com, Expedia and HRS for use of most favoured nation clauses in their contracts. In 2015 it was found that both ‘wide’ and subsequently ‘narrow’ clauses which had been implemented during the proceedings breached competition law. See Bundeskartellamt, Press Release, “Narrow ‘best price’ clauses of Booking also anticompetitive”, 23 December 2015, available at [https://www.bundeskartellamt.de/SharedDocs/Meldung/EN/Pressemitteilungen/2015/23\\_12\\_2015\\_Booking.com.html](https://www.bundeskartellamt.de/SharedDocs/Meldung/EN/Pressemitteilungen/2015/23_12_2015_Booking.com.html)

In 2015 the French, Italian and Swedish Competition Authorities engaged in co-ordinated investigations into price parity clauses in agreements between online travel agencies. In April 2015 they adopted parallel decisions with commitments from Booking.com, that replaced wide MFNs with narrow MFNs. Furthermore, France rendered null and void all price parity clauses by online travel agencies, while Austria did the same in 2016.

<sup>20</sup> Düsseldorf Higher Regional Court, Decision of 4 June 2019 - case number: VI (Kart) 2/16 (V).

<sup>21</sup> Interview with hotel manager

As such there is a concern that large and potentially dominant platforms such as booking.com are making use of rate parity and “match me” clauses which is having the impact of dampening competition in the market for online platforms in South Africa.

### *3.1.2. Market power over routes to market*

Platforms, including search, social media and booking platforms are increasingly a route to customers and markets. While the mix of online and offline sales differs depending on the hotel specifics and niche clienteles, interviewees were unanimous in noting that online sources have significantly increased the exposure and client reach for smaller hotels. As such, while larger hotels and groups, as well as platforms do have an advantage in bidding for terms and often buy off the best advertising slots, many smaller businesses have a very good relationship with the platforms. Firstly, platforms provide them with access to the market and a range of customers that they did not otherwise interact with given their scale. Secondly, the analytics provided by the companies to hotels provide them with insights and analysis that they would not ordinarily have invested in on their own. Thirdly, they often feel able to purchase niche ads and boost these in a manner that has been beneficial to their businesses.

However, there are still concerns that arise from a broader perspective.

- Search is still an important route to market. The extent to which Google is participating in travel by entering the meta search space appears to be increasing. It is becoming an even bigger conduit for customers than it was previously with the integration of their hotel platform with their Maps, Assistant and other capabilities. There is a concern that with integrated market power across different products and capabilities, Google is increasingly positioning itself to be a gatekeeper to customers. Given the increased cost of accessing these routes for providers (particularly smaller groups or independent providers) relative to larger OTAs there are increasing layers of separation between customers and their providers.
- The integration of Google Hotels is similar to Google Shopping in that it could potentially have an impact on comparator and aggregator websites in the future. The cost of integration and the ability to integrate with the offering could raise barriers to entry for smaller businesses.
- Another concern raised is the power that platforms have in bidding on keywords related to hotel names themselves, so that even if a customer types the hotel name, they are often led to the platform rather than the hotels own website. The same is true of bidding on metasearch sites. While this is not a competition issue per se it does suggest increased costs for small businesses.

### **3.2. Recommendations**

While digitalisation has increased the extent to which companies in the tourism and hotel industry are able to access markets and customers and utilise data there are concerns arising over the way in which digital platforms are acting as gatekeepers to the industry.

The fact that OTA booking platforms that appear to be dominant (at least to some categories of providers) are engaging in practices such as rate parity in this market suggests that they are maintaining their dominance and preventing the emergence of competitors in the market. As these practices have been prohibited in other markets there is a strong argument that it could form an enforcement priority in South Africa.

Google already is a key route to customers through its search function. The entry of Google as an aggregator and the integration across Maps, Assist etc is likely to change the market for

meta-sites and it is likely that some of the issues that have emerged in other markets (such as the online shopping market) may also emerge. As such, this should be monitored.

The control over routes to market does create some difficulties for small and independent hotels. However, the impact on these users is predominantly financial as they are forced to increase their prices to cover various commissions and boosting fees required by platforms. However, is different to other online markets such as e-commerce in which smaller companies lose visibility entirely as the business of the booking platform is to sell products.

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