

## Sectoral inquiry into the hotel online booking market

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### Executive summary

#### *Subject of the sectoral inquiry*

On 29 July 2013, the President of the Hungarian Competition Authority (GVH) launched a sectoral inquiry into the hotel online booking market of the tourism sector via resolution number AL/592/2013. The inquiry was launched due to the identification by the GVH of phenomena on the market which may have distorted or restricted competition. The aim of the inquiry was to gain knowledge of the market developments.

At the time of the initiation of the sectoral inquiry, the investigation covered the period 2010-2013; however, due to international developments and the modification of the business policies of certain online intermediaries which also affected the Hungarian market, the investigation was extended to cover 2014 and 2015. In the course of the sectoral inquiry, the GVH (i) requested information from several undertakings and other market players in several rounds and (ii) contracted a market research company to conduct extensive research into the consumer side of the market under investigation. In addition, the GVH used the data of the Hungarian Central Statistical Office as well as other surveys.

#### *The market of online travel agencies (OTAs)*

Due to the evolution of online booking services, the undertakings operating on the market, the business models and the manner in which reservations are made, have significantly changed. Many undertakings, among which there are both global and Hungarian OTAs, provide online booking services. The market of online OTAs is a two-sided market where intermediary platforms (OTAs) link the supply with the demand, namely the accommodation with the consumers. Through the appearance of OTAs, the market has become more transparent as several accommodation offers can be compared on the website of an OTA. This transparency led to an increase in price competition (i.e. so called inter-brand competition) among the undertakings offering accommodation (i.e. hotels); however, there was no substantive price competition among the OTAs on the market and the prices of accommodations were roughly the same in every sales channel in the first period of the sectoral inquiry.

### *Price parity clauses (MFN)*

The lack of price competition can be traced back to the application of price parity (retail MFN or “best price” clauses) in agreements with OTAs, in the framework of which a hotel in its agreement with an OTA binds itself not to offer its rooms for prices that are lower than those given to the website of the OTA on other distribution channels. A hotel is only able to comply with this clause by standardising the prices of its rooms on all distribution channels for a certain period of time. This leads to the elimination of intra-band competition, and simultaneously to the elimination of price competition between OTAs which offer the same room.

MFN clauses can be found not only in the agreements of international OTAs, but also in those of large domestic OTAs. Price parity spread on the Hungarian online booking market via international players, and most of the Hungarian market players have utilised it since it first appeared. The sectoral inquiry led to the conclusion that even if just one agreement is entered into with a significant OTA this may result in the standardisation of hotel room prices on all distribution channels and on the whole market.

The sectoral inquiry found that price parity is more likely to have a negative effect on hotels, since they would only be able to maximise their profits if they could apply favourable prices (i) on their own distribution channels and (ii) on platforms applying lower commission rates. However, the appearance of the OTAs has also brought significant benefits, as the capacity utilisation of the hotels has increased through the operation of online platforms. Price parity reduces the amount of time that consumers need to spend searching online.

### *Narrow MFN*

In many European countries parity clauses have become subject to competitive assessment. The sectoral inquiry revealed that in a number of other European countries, intermediaries introduced narrow MFN as opposed to wide ones. MFN clauses were banned in their entirety only by the German competition authority and the French legislator. According to narrow MFN clauses, OTAs require the hotels not to offer less favourable conditions to them than those applied on their own websites. This narrow MFN requirement does not extend to other reservation channels and accommodations as the wide MFN do.

### *The main conclusions of the sectoral inquiry*

The position of the GVH is in line with the conclusions of international procedures on the topic, according to which the wide MFN may restrict competition by standardising market

prices and increasing barriers to entry. It may give rise to particular competition concerns with regard to the market concentration in Hungary. The application of wide MFN does not result in significant efficiency benefits and does not enhance consumer welfare to a degree that could justify the total restriction of intra-brand competition.

Based on the market conditions and taking into consideration the danger of the free-rider phenomenon, the use of a narrow MFN may be the correct solution to the current market issues. A narrow MFN may pave the way for accommodation providers (hotels) to be able to freely apply different price policies via certain sales channels. On the other hand, OTAs may announce special promotional periods at the expense of their commission rates and may also compete on prices.

With regard to the draft report of the sectoral inquiry of late 2015, which was released for public consultation, the largest, Hungarian-owned market player of the Hungarian online booking market, Szallas.hu, indicated to the GVH that it plans to switch to the application of a narrow MFN. Thus, in practice all larger market players will apply narrow MFN, which is likely to affect the conduct of players with smaller market shares.

The GVH – as a member of the monitoring working group, comprising of eleven national competition authorities<sup>1</sup>, coordinated by the European Commission in the framework of the European Competition Network (ECN) aiming at observing the changes on the online intermediaries market and the effect of the introduction of narrow MFN – subsequent to the termination of the sectoral inquiry will monitor any further market developments in this respect. During the process of monitoring the member states send requests for information to the market players and at the end of the year the working group will provide a reasoned report on the experience gained on the basis of which the ECN may deliver a decision regarding the next steps. If the GVH saw that market developments are unlikely to strengthen competition, it does not rule out intervening.

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<sup>1</sup> Austria, Belgium, Czech Republic, Germany, France, Hungary, Ireland, Italy, Netherlands, Sweden, United Kingdom.