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Managing Online Reviews on TripAdvisor

In 2013, TripAdvisor was the most visited online travel site in the world. It hosted a massive repository of information on hotels and travel services, and provided millions of reviews written by consumers. Consumers were becoming increasingly motivated to read and write reviews on TripAdvisor, largely as a means of informing other consumers about their personal experiences, but also to praise hotels or complain to them about their experiences. In response, hotels were investing more time and marketing dollars on managing the quantity, quality, and location of online reviews, with particular attention paid to TripAdvisor. How should hotels manage this important form of online word of mouth?

History of TripAdvisor

TripAdvisor was founded in February 2000 when CEO Stephen Kaufer and a group of three cofounders decided to try and solve a problem they had all experienced personally. According to Kaufer:

> We found it impossible to get unbiased travel-related information on the Internet. We didn't want slick brochures or polished websites of hotels that allowed you to make a reservation but provided no deeper insight. We wanted to know what other people had to say about their stay. We found several blogs that captured personal travel experiences, but there was no single place where information from all these individual blogs was available.[1]

The initial business model was to monetize the site through banner ads and to license content to other websites. Neither worked as expected. Kaufer and his team then brainstormed and came up with the idea of offering online travel agencies (OTAs) the ability to place text-ad links on TripAdvisor. The site would contain only reviews and ads, and reservations would be carried out by OTA partners. The result was an astonishing ad click-through rate of 10%, compared to an industry average of about 2%.[2] As a result, by 2002 TripAdvisor was a profitable company.[3]

The success led, in 2004, to TripAdvisor being acquired by InterActive Corporation (IAC), which a year later spun off Expedia Inc., as a holding company for its collection of online travel businesses, Expedia, Hotels.com and Hotwire.com, and TripAdvisor. In the years that followed, TripAdvisor expanded its offerings to include services outside of traditional accommodations and tours. Among the new features were enhanced tools to search for flights, added in 2009, and listings for vacation rental properties, added in 2010.[4] In 2011, Expedia decided to spin off TripAdvisor from its main

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business. Around that time, TripAdvisor started acquiring travel-related mobile application developers. Among them, the company purchased the "Where I've Been" app, a map and photo scrapbook of an individual's travels,[5] and Gate Guru, an app that provided comprehensive flight and airport information to travelers.[6]

An early entrant into online travel, Kaufer took great pride in the company as he looked back at its history: "We have become the most popular and largest travel community in the world where consumers get unbiased and real advice for real travelers about hotels, attractions, and other travel-related ideas."[7] By 2013, TripAdvisor featured more than 125 million reviews from around the world and was the largest travel site in the world, in terms of unique visitors, with 260 million people visiting it every month.[8]

How TripAdvisor Made Money

While some review sites charged users a subscription fee (e.g., Angie's List), most did not (e.g., Yelp). TripAdvisor followed the latter approach. Visitors to the site paid nothing to read reviews, compare prices for flights, hotels, and vacation rentals; view professional and user-submitted photos; read city guides; and map physical locations of properties.

TripAdvisor made its money by charging businesses for three services: clickable text ads, display ads, and fees for listings paid by hotels and property owners, known as business listings. The bulk of TripAdvisor's revenue (77%) came from click-based advertising. These text-based ads allowed users to visit other websites to check the rates of hotels and flights and to book them online. Once users clicked through, they were taken to an OTA's site or to the hotel's own website. Hotels and OTAs were charged on a cost-per-click (CPC) basis, with prices typically ranging from $0.25 to $1.00.[9] (See **Exhibit 1** for TripAdvisor's revenue breakdown since 2010.)

At 12% of revenues, display advertising, sometimes referred to as banner ads, was the second-largest revenue generator for TripAdvisor. The company sold display ads on a cost-per-thousand-impressions (CPM) basis, and reported an average CPM in the $15 range.[10]

In 2010, TripAdvisor introduced its business listing service. This third source of revenue came from a premium service that allowed business owners whose listing appeared on TripAdvisor to add their contact information, including website URL, phone number, and e-mail address, so that users could reach the business directly.[11] A business listing also made it possible for hotels to advertise sale prices or special packages alongside their contact information. Hotels that opted to pay for the business listing did not receive any prominent display on the website's listings, which was a function of the online review ratings and users' filtering options. Prices for business listings carried an annual fee of $500 to $10,000, depending on the size of the business.[12]

Other Online Travel Review Sites

There were three general classes of websites that offered hotel reviews. First, there were search engines such as Google and Yahoo, which had travel, tourism, and shopping sections on their sites that contained user reviews. Within the category of search were the meta-search sites that aggregated information from other websites and service providers. TripAdvisor fell into this category, as did local business review site Yelp and flight search site Kayak. Second, there were OTAs such as Travelocity and Orbitz, which provided reviews and handled bookings directly. Third were hotels' own websites, which occasionally included short testimonials or full reviews from guests. (See **Exhibit 2** for the number of U.S. visitors to online travel websites.)

OTAs processed reservations for flights, hotels, and rental cars, charging a fee to business owners for completed transactions, sometimes referred to as the cost per acquisition (CPA) or conversion.[a] According to Danny Kornfeld, a hotelier from the Pacific Northwest, "When fees paid to OTAs and online reservation backbone companies such as Sabre are combined, the total could be 30%–35% of the room's price."[13]

Travel sites also had different review-writing policies. Reviews on OTAs such as Expedia, Hotels.com, and Priceline were limited to individuals who had stayed at the hotel. Following a stay, an e-mail would be sent to the guest with a link that provided a space for a review. Orbitz, on the other hand, used the same procedure but also allowed reviews from people who booked their stay through another site. Orbitz took the additional measure of identifying reviews on its site as verified or unverified.[14] Verification was conducted through samples, and not every review was checked. Posting a review to TripAdvisor did not require proof of a booking, though users had to assert that the review contained an authentic opinion of the property and was not written by someone with a personal or business connection to the hotel, and that payment or incentives were not offered in exchange for the review.

Consumers' Usage of Online Reviews

Consumers shared online word of mouth publicly in various forms, the most common of which were reviews, blog posts, and social media messages. The availability of online reviews and posts for everything from small purchases, such as health and beauty items, to large ones such as automobiles, had transformed consumers' online shopping behavior. A 2012 study based on visitors to various e-commerce sites, not just travel-related sites, showed that those who read consumer reviews were 81% more likely to make a purchase on the site.[15] Trust in online reviews, even if coming from strangers, was high. Of those surveyed in another 2012 study, 72% said they trusted online reviews as much as recommendations from family and friends.[16]

Reading Hotel Reviews

Before the advent of review sites, those interested in booking accommodations had to base their decision largely on what the hotel declared in its advertising materials. For travelers, online reviews provided a way to find trusted opinions on hotels, amenities, and services. When it came to searching for hotel reviews online, consumers behaved quite differently. Of U.S. travelers surveyed in a 2013 study, 40% said they consulted multiple sites when planning travel, 33% said they went directly to a hotel's website, and 15% relied on posts and reviews on social media sites.[17]

Three attributes were considered among the most important when consumers were making decisions about which hotel to book: guest experience, location, and price. (See **Exhibit 3** for attributes consumers cited as important when choosing a hotel.) Reviews allowed consumers who had not been at a property before to gauge the experience of other guests.

But how did consumers sift through the profusion of hotel reviews and decide upon a single property? Using regression analysis, a researcher at Cornell University's Center for Hospitality Research found that, apart from prices, three features of online reviews had a statistically significant effect on people's choices when booking a hotel room: the position of the hotel in an OTA's listing,

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[a] Online businesses that charged per CPI only delivered an ad impression, i.e., showed users an ad. Those that charged per CPC needed, in addition to showing the ad, to get users to click on it to get paid. Lastly, those that charged per CPA, needed to have the user convert, such as making a purchase or signing up for a subscription.

the number of reviews of the hotel, and the average user review score. The data used in the analysis came from bookings at Travelocity.com, a top-five OTA, and covered nine major U.S. cities during July 2012. Results were reported in the form of odds ratios, i.e., the ratio of the probability of an average person booking the hotel to the probability of her not booking it. The analysis showed that a drop in the position of the hotel on the listing (e.g., going from third to fourth place) reduced the odds of booking to not booking by 11%. An increase of one point out of five in average user reviews of a hotel (e.g., from three to four stars) increased the odds by 14%. Lastly, each additional review (e.g., from 100 to 101 reviews) increased the odds of a booking by 0.2%. (See **Exhibit 4** for the odds ratios for each factor.)

Writing Hotel Reviews

Online reviews were plentiful, but who was writing them and what were the motivations for doing so? A 2013 study conducted by StrategyOne reported that more than half of the 15,000 Internet users who responded had written a review for a hotel after staying in it. In comparison, 41% reported they had shared hotel recommendations online using social networks or e-mail.[18] Another survey conducted in 2012 reported that people's top motivations for writing reviews were to share experiences to help other consumers make good decisions, followed by a desire to reward a company that had provided a good service.[19] (See **Exhibit 5** for other motivations.)

The major concern regarding online reviews had to do with biased or fake reviews. It was estimated that between 2% and 6% of ratings and reviews posted on websites were either fake or deceptive.[20] A Gartner report published in January 2013 stated: "An industry has emerged for creating reviews. Paid reviewers are offered compensation from $1 to $200[b] per review. Industry bloggers are offered everything from gift cards to vacations for positive reviews of products and services within their coverage area."[21] In July 2013, another research firm reported that one in four users reading online reviews found the information published to be unfair. Multiple respondents highlighted that there was a need to be on the lookout for biased or fake reviews. Said one, "I can usually tell when a review is fake . . . if it is overly positive. . . . I usually try to read a range of reviews. If there are not enough reviews I don't usually take it seriously." Noted another, "Some are credible some are . . . questionable. Generally reliable if one disregards the top 5% and the bottom 5–10%."[22] Indeed, a study reported that 59% of consumers paid little attention to the most extreme reviews.[23]

Hotels' Management of Online Reviews

Due to its impact on consumers, online reputation management had become a key part of many marketers' roles, and management consultancies were urging their clients to become more serious about managing it. A 2010 study by McKinsey & Co. claimed that "word of mouth is the primary factor behind twenty to fifty percent of all purchasing decisions" and that "marketing-induced consumer-to-consumer word of mouth generates more than twice the sales of paid advertising in categories as diverse as skincare and mobile phones." These figures supported the consultancy's claim that "with so few companies actively managing word of mouth—the most powerful form of marketing—the potential upside is exponentially greater."[24]

In the hospitality industry, this desire was even more pronounced. Hotel chains, their marketing agencies, and individual property owners had become interested in better understanding the extent

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[b] The $200 figure referred predominantly to more elaborate reviews, for example, in blog posts.

of the financial impact that online reviews had on hotel revenues. For those that saw value, the main question was how to effectively manage online reviews.

Impact of Online Reviews on Reservations

In 2013, hotels spent 7.5% of their operating expense budgets on marketing. Twenty-eight percent of the marketing budget was spent on digital advertising,[25] even though, by some accounts, 42% of all room nights booked were reserved online and a significant portion of the rest were influenced by online channels.[26] Online reviews had proven to be strong drivers of business across all categories of the travel industry, but were most influential when it came to increasing prices and occupancy of hotels.

Using data collected between January 2010 and June 2012 in six European and five American cities, a researcher at Cornell estimated the impact of a hotel's Global Review Index (GRI), an average rating of a hotel based on many online review sites (including TripAdvisor), on its ability to charge higher prices, book rooms, and attain a higher revenue per room throughout the year. A regression analysis estimated elasticities—the percentage change that could be achieved if GRI was changed by a similar percentage—for these three key performance indicators for hotels. Across all categories of hotels, the "rating elasticity" was 0.8 for prices, meaning that an increase of 10% in the GRI of a hotel was associated with an 8% increase in prices. A similar increase in GRI increased occupancy by 2% and revenue per room by 9.6%. (**See Exhibit 6** for elasticities by hotel category.) Many major hotel chains as well as small independent hotel managers had taken account of this effect and were acting to improve what consumers were saying about their properties online.

Managing Online Reviews

Hotels tried to manage three aspects of the availability of online reviews: the location in which the reviews appeared, the quantity of reviews generated, and the quality of the reviews. Part of their marketing efforts therefore needed to focus on getting guests to write reviews. While it was against review sites' policies to offer payment or incentives in exchange for reviews, there were actions that could be taken to encourage the writing of reviews. These included displaying review site marketing material such as certificates in the hotel lobby and badges for hotel websites, as well as training front-desk staff to remind satisfied guests to write reviews upon their return home. Responding to users' reviews and social media comments, positive and negative, had also become an important action to encourage more and better reviews.

Two hotel chains were getting significant attention in the marketplace for their distinct approach to managing online word of mouth and reviews. The Four Seasons Hotels and Resorts stood out among competitors in the luxury category, and Homewood Suites was notable in the midprice range.

Four Seasons Hotels and Resorts   The high-end Four Seasons hotel chain had 92 hotels in 38 countries[27] and devoted half of its marketing budget to digital.[28] It had come to embrace the openness of digital channels to such an extent that its new website launched in 2012 strayed from the practice of most luxury brands and displayed users' reviews written on TripAdvisor in each Four Seasons property's website. "[We do] very little traditional advertising—none in the U.S., and a little bit in the Middle East and Asia," said Susan Helstab, Four Seasons executive VP of marketing.[29] An example of the type of outreach the hotel did online were its Twitter wine tastings, introduced in 2010. "You can get the wine yourself, and taste it and listen to the description and evaluations [on Twitter], or you can go to the participating hotels," said Helstab. "It's about romancing the destination."[30]

Homewood Suites   Homewood Suites, part of the Hilton brand of hotels, was a middle-tier hotel chain of more than 300 suite-style hotels that operated in the extended-stay market, alongside such competitors as Residence Inn and Staybridge Suites.[31] Though most of the Homewood Suites properties were independently owned and run by franchisees, marketing training and support took place at the corporate level.[32] According to Carla Raynor, Homewood Suites VP of global marketing, the company had been reducing its spending in measured media, such as television, radio, and print, since 2008.[33] In 2010, the company began using an online tool to monitor the large volumes of guest feedback on a daily basis. "We realized that was an opportunity," said Raynor, "so we've put a plan in place to address every conversation. . . . [T]he e-commerce team is going in and making sure that every review gets a response. Once that happens a lot of times a guest will post a positive review. As that happens, your popularity index will increase, [for example], how you're ranked on TripAdvisor."[34] On Facebook, the company found that its habit of posting specials and offers was less effective than assisting people with reservations and specific questions related to their hotel stay.

For owners of independent hotels, online reviews carried particular importance. "When you've got a few small hotels and there is strong competition from a brand in the same market, the only way you can really compete against their million-dollar marketing budgets is with positive reviews," said Kornfeld. He continued, "TripAdvisor provides us with things like door hangers and certificates and even little cards that we can hand to guests at checkout as reminders to write a review. This has helped us with both the quality and quantity of our reviews on TripAdvisor."[35]

The Challenge Ahead

Consumers' ability to search for hotels online, read reviews, compare prices, and complete the transaction in a few clicks had dramatically changed the hospitality industry. In an effort to influence consumers, some of the most high-profile hotel chains were investing heavily in managing reviews and, in turn, reducing their advertising budgets. How should hotels manage online reviews? In particular, could the volume and quality of reviews be increased? Which review sites should become the focus of marketing efforts? Should the budget for these new activities come out of the advertising budget, as supposedly done at the Four Seasons and Homewood Suites, out of the marketing budget, or from other budgetary sources? How could the decision be justified to senior management?

**Exhibit 1**   TripAdvisor's Revenue Breakdown (in $ millions)

	2012	**2011**	**2010**
Click-based advertising	588	500	384
Display-based advertising	94	86	72
Subscription, transaction and other	81	51	29
Total Revenue	763	637	485

Source: TripAdvisor, 10-K filing, 2012.

Exhibit 2   Estimated Monthly U.S. Unique Visitors to Online Travel Websites

Website	TripAdvisor	Yahoo Travel	Expedia	Travelocity	Priceline	Orbitz	Kayak	Hotels.com	TravelZoo	Hotwire
Monthly Unique Visitors (in 000s)	27,000	26,250	26,000	16,000	15,000	14,000	8,500	8,000	6,000	5,750

Source: http://www.ebizmba.com/articles/travel-websites, accessed December 11, 2013.

Exhibit 3   Most Important Factors in Selection of Hotels by Consumers (in percentage)
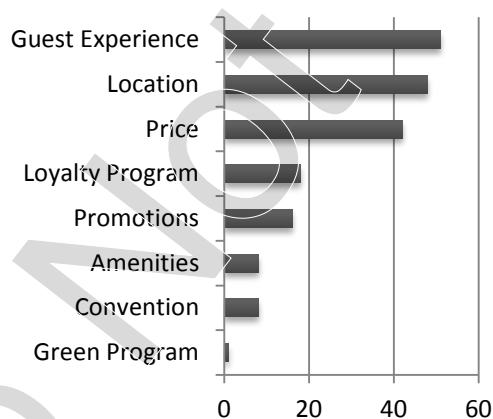
Source: Market Metrix, Hotel & Motel Management, January 2010.

Note: Numbers do not add up to 100% as multiple responses per participant were accepted.
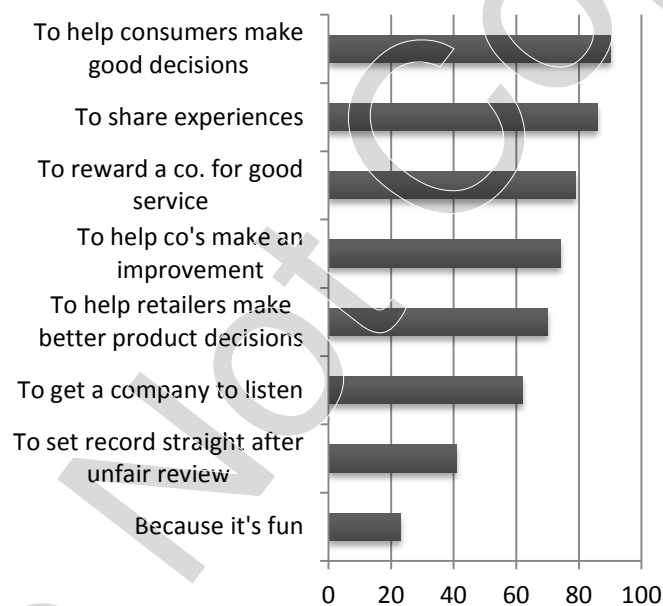
Exhibit 4   Estimates of Regression Results Showing Magnitude of Impact of Review Factors on Booking

Factor	*Unit*	*Odds Ratio*
Position	Position of review from the top (1st, 2nd, 3rd, etc.)	0.885
User Review Score	One star (out of five)	1.142
Number of Reviews	One review	1.002
Relative Price	Hotel price divided by the average price of all same star hotels	0.304

Source: Cornell Hospitality Report, November 2012, www.chr.cornell.edu.

Note: Odds ratio to be interpreted as the change in the ratio of the probability of an option being chosen to the probability of not being chosen, given a 1 unit change in the factor at the current average level. Number of observations = 13,341.

Exhibit 5   Reasons Cited for Writing Online Reviews (expressed in percentage)

Source: http://socialmediatoday.com/douglaskarr/561225/infographic-why-do-people-write-online-reviews, accessed December 12, 2013.

Note: Numbers refer to the percentages of respondents that selected "important" or "very important."

Exhibit 6   Elasticity of Price, Demand, and Revenue due to Reviews

	Pricing (ADR[a])	Demand (Occupancy)	Revenue (RevPAR[a])
All	0.80	0.20	0.96
Luxury	0.44	0.09	0.49
Upper Upscale	0.57	0.30	0.74
Upscale	0.67	0.19	0.83
Upper Midscale	0.74	0.42	1.13
Midscale	0.89	0.54	1.42

Source: Cornell Hospitality Report, November 2012, www.chr.cornell.edu.

[a]ADR = average daily rate, RevPAR = revenue per average room. To be read as "a 1% increase in the average rating of a hotel (GRI) increases its ability to increase prices by 0.8%, without any loss of occupancy." Number of observations = +50,000.

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