



## Protecting Hotel Profitability and Asset Value

### Regaining Commercial Control in an Era of Expanding Distribution and AI-Driven Demand

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Hotel profitability is under sustained pressure, not because demand is lacking, but because *distribution has fundamentally changed*. A hotel's distribution strategy has a direct impact on the hotel's asset value.

Independent and soft-branded hotels are navigating a more complex commercial environment than at any point in history. Third-party intermediaries have expanded well beyond traditional OTA retail models into sophisticated B2B and B2B2C ecosystems, while AI-driven search and booking behavior is reshaping how guests discover, compare, and book hotels.

For independent hotels, the challenge is not deciding whether to participate in third-party distribution, but *how* to do so intentionally. Without the scale and rigid mandates of major global brands, margin discipline must come from strategy rather than structure.

This white paper outlines how margin leakage occurs today, why it is accelerating, and most importantly, how independent hotels can regain commercial control while continuing to access global demand.

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The hotel distribution landscape has changed, and it is not going back. What used to be a relatively straightforward mix of direct bookings, retail OTAs, and corporate demand is now a layered ecosystem where rates move quickly across networks and visibility, and profitability drops as soon as an intermediary is involved. The modern hotel distribution ecosystem is layered, opaque, and increasingly interconnected. Hotels now operate across four primary models simultaneously: direct-to-consumer (D2C) through hotel website and voice channels; B2C (retail OTAs) via commission-based OTA sales to end consumers; B2B (trade distribution) using net and discounted rates for wholesalers,

agencies, and platforms; and B2B2C (redistributed rates), where trade rates reach consumers through onward distribution.

What has changed is not simply the *number* of channels, but the *loss of visibility, control, and profitability* once rates enter intermediary networks.

Independent and soft-brand hotels benefit from operational freedom, pricing flexibility, and distinctive guest experiences. However, that same flexibility creates exposure.

In practice, that exposure often looks like a higher default reliance on OTAs, fewer structural controls on inventory and promotions, and greater vulnerability to discount stacking and redistribution.

**Without proper strategy and discipline, third-party channels quickly become the path of least resistance rather than a strategic choice.**

The moment those channels become default rather than deliberate, the real cost shows up in the numbers, not always immediately, but consistently over time.

Margin leakage is not always obvious. It tends to show up through a few repeatable mechanics, including discount stacking and onward distribution.

**Discount stacking** is one of the most common culprits. Margin erosion often occurs quietly through the accumulation of multiple incentives, including promotional discounts, loyalty or member programs, visibility accelerators, geo-targeted offers, and base commissions.

While each lever may appear manageable individually, their combined impact can reduce net revenue by 30–40% or more.

**Onward distribution** is the other major driver. Once a rate enters a B2B ecosystem, it may be redistributed multiple times, often without hotel awareness. The result is undercutting of direct and corporate rates, cannibalization of negotiated business, and reduced ability to manage who sees which rates, and when.

These dynamics are not limited to leisure demand. They are increasingly visible in the managed corporate segments as well, where sourcing has expanded and rate shopping is now built into the booking path.

Managed corporate travel is also changing. Corporate distribution is no longer confined to GDS-based negotiated rates, and modern online booking tools increasingly surface OTA retail rates, B2B rates, or a blended mix of both.

This shift disproportionately impacts SMEs and unmanaged travel programs, where travelers are presented with the *lowest available rate* regardless of source or margin implications. Once presented with such rates, rate parity is out the window – it is difficult to know the source of the rate to keep it under control, resulting in a negative impact to your corporate and retail strategies.

At the same time, technology is making comparison easier for travelers and faster for platforms, which is where AI becomes a force multiplier for both visibility and leakage.

**AI is accelerating the challenge.** AI-driven search and recommendation engines are fundamentally altering the guest journey, and travelers now rely on AI to compare rates across multiple sources simultaneously, surface “best” options automatically, and book on their behalf in real time.

If a rate exists anywhere in the ecosystem, AI will find it. This reality makes disciplined distribution and clear content strategy essential.

When discovery and booking happen this quickly, success depends less on intuition and more on measurement that reflects true profitability.

**Measure what matters for positive asset impact.**

To stay in control, hotels must measure what matters. Gross ADR and top-line RevPAR no longer provide sufficient insight. Effective commercial strategies increasingly focus on net ADR after commissions and discounts, true cost of acquisition by channel, and incremental versus cannibalized demand. The full value chain of costs along the path is not fully captured on the P&L of a hotel. Understanding all the players and the associated costs, teams can make smarter decisions about where to participate, where to pull back, and how to defend the direct channel without sacrificing reach.

Even a small shift in sales channels can significantly affect your hotel's asset value. This happens because distribution costs can grow rapidly as volume increases. When you add higher operating expenses and stricter lending policies to the mix, just a 2% increase in bookings through third-party intermediaries could cost you thousands of dollars, and might even prevent you from making essential renovations or upgrades to stay competitive.

Regaining control comes down to a few strategic levers. The most effective approaches tend to be practical: using OTAs intentionally, converting OTA guests into direct loyalists, competing on value rather than price, and strengthening digital demand capture.

**Use OTAs intentionally.** OTAs are powerful acquisition tools when used strategically. That typically means prioritizing need periods and shoulder demand, reducing exposure during high-compression dates, and regularly assessing which bookings are truly incremental.

**Convert OTA guests to direct loyalists.** OTAs should be treated as acquisition, not ownership, channels. That starts with accurate data capture at check-in, continues through differentiated on-property experiences, and ends with post-stay direct re-engagement, so the next booking is more likely to come through the hotel's own channels.

**Compete on value, not price.** Rate parity may be mandatory, but value parity is not. Direct booking advantages such as flexibility, inclusions, loyalty benefits, and experience-based perks tend to outperform price-based strategies over time.

**Strengthen digital demand capture.** A high-performing direct channel requires fast, mobile-first websites, simple and transparent booking engines, and strategic participation in metasearch along with brand search protection.

Finally, alignment is the differentiator. Even the strongest strategy fails without leadership alignment, which is why hotels that protect margin successfully tend to set clear channel mix targets, educate ownership on net profitability, and review distribution performance consistently.

Distribution is not a tactical function. It is a long-term business decision, and it deserves the same rigor as any other strategic investment.

Third-party distribution and AI-driven demand are here to stay. Hotels that continue to operate passively risk ongoing margin erosion.

Those that adopt disciplined, data-driven strategies, balancing intermediated demand with strong direct relationships, will protect profitability, preserve independence, and position themselves for the future.

**The goal is not to leave the ecosystem. The goal is to lead within it.**

Preferred Hotels & Resorts member hotels are offered oversight and education to this phenomenon. For independent or soft-brand hotels looking to put these strategies into action, PTG Consulting can help. We work alongside owners and operators to diagnose margin leakage, clarify true net performance by channel, and implement practical controls across pricing, promotions, and distribution so your commercial strategy stays intentional as the ecosystem evolves.