4 Keys to a Profitable Hotel Distribution Strategy
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Determining what inventory to sell where has become a critical step in running a profitable hotel

For the longest time, hotel marketing was rather simple: The majority of hotel bookings came directly from guests either walking through the front door, calling the hotel or calling the reservation center.

But the technology disruption of the mid 1990s has completely flipped upside-down the way consumers book hotel rooms. Online travel agencies like Priceline and Expedia have become one of the primary ways consumers book hotel rooms. In turn, these distribution companies have grown to the point where their market values are higher than most hotel brand companies, all while building business selling hotel rooms without the risk of mortgages, bed bugs or handling a bad guest experience.

Because of this evolution, hotels are spending more than ever to market themselves to potential guests. A 2014 study revealed that the costs for hotels to acquire a guest is often rising at more than double the rate of room revenue increases.

Despite the growing costs of marketing hotel rooms online, distribution partners can’t be considered the enemy. Other industries have faced, and embraced, the same situations. For example, Apple has their own brick and mortar stores, but many other retailers sell iPhones. In the past, it didn’t really matter where you bought your iPhone—it would cost the same and you’d be presented with the same options. Today, retailers like Best Buy, Target, Verizon and Sprint periodically offer discounts and other perks, such as trade-in and sign-on bonuses or special gift cards. These channels have become major drivers of business, and when managed effectively, OTAs can be too.

The bottom line is that OTAs are requiring hoteliers to budget, measure and analyze their sales and marketing—and overall profitability—differently. As the distribution landscape continues to evolve and complexities and costs grow, effective distribution and pricing strategies are more important than ever. To lay the foundation for success, make sure you are following these four simple steps.
1. Understand varying costs of acquisition

Now that OTAs have become a primary way consumers book hotel rooms, those distribution partners have even more leverage and can charge hefty commissions, sometimes reaching 25% or even 30%. Refusing to work with them can mean the difference between profit and loss. And with Expedia and Priceline suddenly dominating the space, hotels have even less negotiating power when it comes to signing distribution agreements.

Some have argued that the cost to acquire guests is unsustainable.

“There’s very little direct in the way we knew (hotel bookings) five years ago,” says Cindy Estis Green, CEO of Kalibri Labs and co-author of Distribution Channel Analysis: A Guide for Hotels. “The majority of a hotel’s bookings will pass through some intermediary and incur added cost even if the consumer ends up booking on brand.com.”

According to a recent study from the Hospitality Asset Managers Association, between 2009 and 2012, overall customer acquisition costs were nearly on par with revenue growth and in some cases commissions rose at nearly twice the rate of revenue.

The study of 104 upper-upscale and luxury managed properties with brand affiliations in the United States and Canada found room revenue increased by 23%, or 7% annually. By comparison, overall customer acquisition costs increased just less than 23%. But brand allocations went up 37% and third-party commissions rose 34%.

Therefore, understanding the cost of each of these individual channels is critical for comparison sake. Keep up-to-date and accurate figures on your commission structures. Factor in your own property-level sales and marketing costs. Examine what
you’re paying your franchisor for sales and marketing, as well as any digital costs, and evaluate the brand.com channel just as you would a distribution partner.

To help, some forward-thinking hoteliers are now suggesting a new key performance metric to measure and benchmark hotel operating success: Net revenue per available room. NetRevPAR is defined as revenue per available room after subtracting the cost to acquire a guest, which is typically sales and marketing plus distribution costs.

The formula often looks like this: rooms revenue – distribution costs (cost-per-click + native marketing + third-party commissions) / available rooms

Once you have a good sense of the costs of each channel, as well as common figures that will let you compare and contrast easily, you can begin making smarter decisions on where to place and how to yield your inventory. As we’ll explore below, this does not mean closing one channel and adding inventory to another, but determining what kind of demand you need on any given day and fluctuating prices and availability within the spectrum of channels to acquire the right demand at the right price.

2. Drive Bookings Direct

A comprehensive revenue strategy is anchored by driving as much direct business as possible. To compete with the OTAs, hoteliers must give consumers reasons to book on their lowest-cost channels.

To avoid the frequent example of a guest finding a lower rate on a partner website, showing the front desk and asking the hotel to match, ensure your rates and inventory are updated simultaneously and in real time.

Beyond pricing strategies, the opportunity is there for savvy hoteliers to take the first step to one-to-one marketing and really begin bridging the gap between revenue management and marketing. By integrating pricing strategies with loyalty programs, hotels can regain control of distribution, lower costs and provide a more satisfying
experience to their customers from the point of booking.

Hoteliers have a one-up on OTAs in that they often have much stronger customer data profiles. Brands can use complex customer relationship management systems to customize a guest experience, connect with the guest on a much more personal level and begin segmenting customers by lifetime value.

Focus your online content on other value-added opportunities, such as better images, reviews and room type options. The rapidly growing mobile channel provides additional opportunities.

Take a best-rate guarantee one step further by using “fences,” also known as closed user groups, to segment your customer base and offer promotions to specific groups of people within that fence. Consider creating a fenced user group by asking travelers to sign in to your site and then offering those registered a discounted rate, similar to creating an email promotion to a fenced group. In essence, give your most loyal guests access to an offer that non-affiliated general consumers wouldn’t receive.

By collecting more data on your guests, you can better customize their offerings. If done correctly, hotels could consider offering discounted pricing based on the profitability of guests. In the end, it’s important to provide assurance to the customer that they will always get the best deal when they come to your site and that their loyalty is being appreciated and rewarded. Even the appearance that a better price could be available somewhere else could compromise your entire acquisition strategy.

3. Optimize the booking conversion rate

If the goal is to get the most traffic directly to your website, it’s imperative that you are able to close the deal there as well. Worse than missing out on direct traffic is driving people to your website and then offering them a less-than-satisfactory web experience or offering them the wrong product.

For this reason, you must be clear on your target demographic and position your web content accordingly. Are you offering a luxury experience to appeal to high-end guests or are you positioning yourself as a cost-effective alternative for people with a limited budget? Trying to please every guest across the spectrum could backfire and impact your conversion rate from web visit to booking. Hotels vary in their value proposition and you don’t want to attract a meeting planner to your hotel that doesn’t have meeting space. Clarifying who you’re selling to and positioning offers to the right customer will help increase bookings.

OTAs have excelled at this practice and hotels can learn from them. Prevent a user from flipping back and forth between pages to check availability. Keep the shopper engaged by providing the item description, information, images, price and calls to
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action without ever leaving the page. And, as detailed above, make sure your most valuable guests are being offered the best prices and don’t give them a reason to shop around.

4. Keep Channels Open

Most hotels today, even most revenue management systems, rely on a public BAR rate and move all other discount or promotional rates up and down in lockstep based on predetermined fixed discounts. For example, an AAA rate is usually 10% less than BAR and an OTA package rate may be 30% less. When demand is high, hotels close those channels or add length-of-stay restrictions rather than sell discounted rooms they know will sell at full BAR.

This fixed-tier strategy centered on BAR or other length-of-stay restrictions is easy to manage, but severely limiting when it comes to revenue potential. A new approach called open pricing enables hotels to keep channels open, never closing the door on a guest who wants to book your hotel. It allows discount channels to be yielded up rather than shut off. As a result, it empowers hotels to optimize every single booking and better manage distribution across all channels.

Often, a customer looking to book a four-night stay might be shut out because one or two of those days are in high demand. But rather than closing the guest out entirely, open pricing allows hotels to charge a lower rate on the days with more availability and yield up on the high demand days. For example, a traveler might be offered a room that costs $200 on Tuesday and Wednesday but $400 on Thursday and Friday.

The same processes should apply when working with distribution partners. Retailers like Apple understand that some customers will shop for their products at Best Buy. Clothing companies know consumers will buy their products from brick-and-mortar
stores, directly online and in stores ranging from Nordstrom to discounters like TJ Maxx. Likewise, hoteliers know some travelers will go straight to Expedia and other OTAs.

Hoteliers should embrace these opportunities and make sure they are properly managing distribution and pricing across all channels. In times of high demand, distribution channels should be yielded up rather than shut off. During less compressed times, those discount channels can be a critical vehicle to drive occupancy.

Open pricing allows you to manage inventory with a complex matrix of prices, nearly an infinite amount of rates always changing by segment, channel and room type. New technologies are making this advanced approach possible and quite profitable for many hotels. By having the ability to manage inventory and pricing with real-time precision across every channel at all times, hotels can ensure their product is stocked on every possible shelf—and at the right price.

Conclusion

A successful distribution strategy must begin with a more acute understanding of customer acquisition costs by channel. From there, hotels must focus on driving and converting more direct bookings and maximizing revenue on every transaction across all channels. Advanced revenue strategies and new technology are equipping hoteliers with the tools and tactics they need to level the playing field with OTAs and not only survive, but thrive in this new digital world.
About Duetto

With solutions that address the true challenge of today’s distribution landscape, Duetto provides unique and powerful revenue strategy tools to optimize profit and guest loyalty. Duetto delivers powerful insights on pricing and demand to hotels and casinos through a 100% cloud-based application.

Utilizing new consumer-centric data sets such as web shopping regrets and denials, social review, air traffic, weather and more, Duetto GameChanger transforms the way hotels and casinos price and sell rooms by providing better and more actionable information. Make informed distribution choices and independently yield all channels, dates and room types with open pricing to drive healthy revenue and optimize profitability.

Thanks to modern cloud architecture, new features and upgrades are delivered seamlessly with zero system downtime. This rapid innovation enables Duetto to provide an industry-leading user interface and experience that’s continually improving.

Working with and for the hospitality industry, Duetto is changing the game.