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## Another Look at Flash Sales Sites and Whether They Should or Should Not Play a Role in Hotel Distribution

| By Max Starkov and Adam Kirby

Max Starkov and Adam Kirby debate as to whether Flash Sales should play a role in hotel distribution.

Recently we had a professional chat with Adam Kirby, a regular contributor to HOTELS magazine, about whether Flash Sales Sites should or should not play a role in hotel distribution. Adam served as associate editor from 2006 to 2010 and now works as a freelance writer out of his home in Oak Park, Illinois, and knows a thing or two about hotel distribution issues. Adam can be reached at [askirby81@gmail.com](mailto:askirby81@gmail.com).

Adam Kirby:

Hospitality eBusiness Strategies (HeBS) recently published an interesting blog article: ["Members-Only, Flash Sales and Group Buying Sites – Are These New Retail Concepts a Good Idea for Hotel Distribution?"](#). In this article, authored by one of your Senior Account Executives, Sara O'Brien, HeBS expressed the view that while these 'new retail concepts' may be good for certain product niches like fashion retail and local services such as yoga classes and day spas, they are not good for hotel distribution.

You are on the record as opposing flash sales generally. Are there any scenarios where they might be a net benefit to a hotel?

Max Starkov:

The main focus and priority for any hotelier should be to sell as much inventory via the most cost-effective distribution channels that can potentially generate the most bookings while preserving rate parity and price erosion. Hoteliers should realize the existence of "The Law of Unintended Channel Share Loss" which stipulates the following:

**Any booking via the most discounted channel (i.e. Flash Sales Sites such as Groupon, LivingLocal.com or SniqueAway.com) is one less booking for the same hotel via the hotel website, call center, GDS, or OTA (in that order).**

This is why we recommend that hoteliers focus on their direct online channel (the hotel branded website) which is by far the cheapest distribution channel. A booking via Marriott.com costs \$2-\$3 per booking. A booking via an independent website costs \$8.50-\$11.50 including all marketing and advertising expenses.

By encouraging interaction on the hotel website and on social media channels, joining in on the conversation, and making changes to the business based on feedback, hoteliers show both current and potential guests that they are listening to them. This is invaluable for building brand loyalty and encouraging positive reviews.

Hotel website revenues are also closely related to the quality of the hotel digital marketing. Do you have an SEO program in place? SEM campaign promoting? Concrete offers and packages? Email marketing? Social media initiatives to engage the customer? Mobile marketing campaigns? Online media initiatives: banners, sponsorships, CPC programs on Kayak.com and TripAdvisor.com?

In addition to the Direct Online Channel, based on their concrete occupancy and ADR needs, hoteliers should focus on the following distribution channels, and strictly in the following order:

- Voice Channel
- GDS Travel Agent Channel
- OTAs

In our view Flash Sales and group buying sites should be considered by hoteliers only in dire circumstances and as a last resort and only when the hotelier exhausts all revenue opportunities from all the above channels.

Adam Kirby:

Not all flash sales are equal. Are there certain types of flash sales that are preferable to others? Are flash sales strictly a recession-driven fad, or do you expect them to stay around long-term?

Max Starkov:

Flash sale sites are not a “new and revolutionary distribution channel” as they claim to be. Such member-only travel clubs have existed for at least 165 years. Thomas Cook and American Express started back in the 1850s as exactly this type of member-only travel clubs. Diners Club started as a members-only dining club back in the 1950s.

In my view, all Flash Sale sites are a recessionary phenomenon. There is nothing special about the technology these sites use. The only reason they emerged over the past three years is the recession. These are the new TravelZooos. As travel demand increases these Flash Sales Sites will go the way the most popular Dot-Com sites went: (remember trip.com? lastminutetravel.com?)

Contrary to popular claims, there is no exclusivity—anybody could become a member of any of these Flash Sales Sites. There is no loyalty to a specific site. Members of Groupon are often members of Living Social and v.v.

Recently TripAdvisor created SniqueAway, a Flash Sale “member-only club”. TripAdvisor emailed an invitation to their opt-in email list to join SniqueAway. Anybody who replied (including me) got in. Flash Sales members are only loyal to the 50% - 60% discount off retail rate—whether it would come via Groupon or Living Social or SniqueAway it does not really matter as most of these sites serve the same audience.

Adam Kirby:

A hotelier whose competitor is stealing away business through flash sales might be enticed to engage in the flash sales to compete. What advice would you give to this hotelier?

### Max Starkov:

“Don’t succumb to the devil” – this is my advice. A smart hotelier would never repeat the mistakes or dumb moves of a dumb competitor, why now with the Flash Sales Sites? Stick to the fundamentals in hotel distribution and make sure you are covering all the bases in the Direct Online Channel, including website re-designs, SEO, SEM, email marketing, social media, mobile web, online media, the voice channel, GDS Travel Agent, and even the OTA channel.

Why? The Flash Sales Site “economics” does not work for the hospitality industry. To participate, hotels are required to sell rooms on these sites at more than a 50% discount. A recent Groupon sale for a Hyatt Regency in Chicago offered a discount of 62%! In addition to the steep discounts from face value i.e., retail rates, these sites charge fees from 25% - 35% from the already discounted rate. For example, if you are a hotel and negotiate a promotion with Groupon at 50% of your best available rate (BAR) of \$200, the math works in this fashion:

- 50% of this rate is \$100
- Groupon gets 35% = \$35
- The hotel receives \$65 net i.e. 67.5% discount from BAR.

This can be likened to selling your rate on Expedia at a 67.5% discount! With the economy improving and travel demand rising, these steep discounts simply do not make economic sense.

### Adam Kirby:

One reason often given by hoteliers for participating in flash sales is the desire for exposure to consumers who might not otherwise find them. Is this a valid reason to engage in a one-time flash sale, or are there better ways to find new customers?

### Max Starkov:

Hoteliers are making the mistake of believing that once the hotel is “found” by members in a Flash Sales Site, those people will then become loyal hotel customers. This is like believing that if Mandarin Oriental or Ritz Carlton conducts an exclusive sale for members of BJ’s Club or Walmart, members of those clubs will later become loyal customers of those luxury lifestyle brands. Flash Sales members are loyal only to the “50% off rack rate” religion, not even to each individual Flash Sales Site.

With travel demand rising, these Flash Sales Sites have started losing their ability to “intrigue” members with steep 50% - 60% discounts off published rate and are rapidly losing membership and importance as a whole. We already see that the quality of service providers using LivingSocial and Groupon today has deteriorated immensely: massage parlors, yoga studios,

salsa dance classes, desperate restaurants that Yelp does not even want to talk to, and... a sprinkle of delusional hotels.

Adam Kirby:

Paint the doomsday scenario: If the hotel industry eventually becomes dependent on flash sales to drive business, how would that impact the industry?

Max Starkov:

This would once again show to the rest of the world how behind the hospitality industry is, as far as innovation and adopting smart marketing and distribution solutions.

There is another important consideration: working with the Flash Sales Sites only exacerbates the situation of any hotel with the OTAs. The OTAs are monitoring the Flash Sales Sites very closely. This is economic espionage 101. How would your Expedia rep react when they see your hotel having a 67.5% promotion on a Flash Sales Site like Groupon or LivingSocial.com, and in the same time you are arguing about your discount rate/merchant mark up rate of 25%? Our observations show that any time a hotel does a Flash Sales promotion, its ranking on Expedia, Hotels.com, etc drops i.e. the hotel loses business even from the OTA channel.