



It's Official: The Dumbest Hotel Distribution Idea!

| By Max Starkov

In my previous articles I have argued that certain hotel distribution ideas and channels are not only detrimental to the hotel industry from pricing and branding perspective, but simply do not make any economic sense.

In my Hotels magazine blog article “Another Look at Flash Sales Sites and Whether They Should or Should Not Play a Role in Hotel Distribution,” co-written with Adam Kirby, I argued that Flash Sale sites like Groupon, Living Social, SniqueAway, etc. are recessionary phenomena and that the steep discounts of 65%-75% paid by hoteliers did not make any economic sense; that these flash sales sites are being used only by desperate and misinformed hoteliers.

And in my recent Hotels magazine article “Can Hoteliers Take Back the Initiative from the Online Travel Agencies (OTAs)?” I argued that since 2008, OTAs had increased their market share in hotel distribution by nearly 45% and as a result, revenue leaked from hotels to the OTAs in the form of abnormally high merchant commissions had reached \$5.4 billion in 2010 alone (HeBS Research). Read more in HeBS’ recent article “Déjà Vu: The Billion Dollar ‘Leakage’ Continues to Drain the Hospitality Industry.”

It is obvious that the above distribution channels are against the fundamental principles of hotel distribution. 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.

Dumb and Dumber, Anyone?

Back in 2010, in the height of the Flash Sales craze when I believed that the industry had reached the very bottom of the “pseudo-innovative distribution idea pit,” another even more damaging and far dumber distribution idea began to take hold: an auction site called Off & Away (www.offandaway.com).

Off & Away, founded by former Amazon.com and travel industry executives, is an auction site “focused on offering exceptional travel experiences to its customers in new, fun and unique ways”(company information). Travel consumers buy packages of \$1 bids to use on the auctions; for every bid, the price goes up by \$.10 and up to 15 seconds is added to the clock. Last user to bid before the time runs out wins a big-ticket hotel stay.

Participating hotels, typically luxury and boutique hotels and resorts, come up with exclusive and unique packages, usually based on suite accommodations and two-night stays, ranging from \$1,250 - \$3,000 and above.

So where is the catch?

The business model of Off & Away is flawed from the start. For one, all auctions start from zero dollars and the bid price goes up by \$.10 with every bid. In other words, for a \$2,000 luxury suite package, you need 20,000 bids at \$.10 to reach the face value of the package. The problem is that only a handful of bidders participate in each bid (50-70 as per Off & Away’s own information) and as a result the final price ends up to be 90%-99% below face value!

Case Studies from the “Innovative Distribution Idea Hell”

The following case studies from recent Off & Away auctions from across the country speak for themselves. The ultimate record belongs to Fairmont Miramar Hotel & Bungalows in Santa Monica—the final discount was 99.6%!

Name of Hotel	Auction Date	Deal	Deal Value	Final Price Paid by Consumer	Final Discount vs. Face Value
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St Giles Hotel - New York Auction URL: http://bit.ly/iC8GpE	June 22	2 nights at the Tuscany - a Premium Suite	\$2,070	\$105.10	94.5%
The Palms' - Las Vegas exclusive Fantasy Tower Auction URL: http://bit.ly/mc2Q2M	May 27	2 nights at the Salon Suite in the exclusive Fantasy Tower	\$2,200	\$68.45	96.9%
The Gramercy Park Hotel, New York Auction URL: http://bit.ly/jnfLva	June 17	2 nights at the Loft Suite	\$1,830	\$83.84	95.4%
The InterContinental San Francisco Auction URL: http://bit.ly/k2pTdO	June 8	2 nights at One Bedroom	\$1,550	\$15.54	99%
Fairmont Miramar Hotel & Bungalows, Santa Monica Auction URL: http://bit.ly/mjDwOP	June 6	2 nights at Signature Bungalow Suite	\$1,400	\$5.41	99.6%
Hotel Monaco Chicago Auction URL: http://bit.ly/iMVGbs	May 10	2 nights at River View Mediterranean Suite	\$1,220	\$82.49	93.6%

What were these hoteliers thinking? Were they hoping to somehow achieve a better final price compared to what they can get from a Flash Sale site like Groupon or Living Social, or an OTA like Expedia? Compared to Off & Away, distribution via any Flash Sale site or an OTA looks like the smartest thing on the planet.

Did we mention that some of these hoteliers participate in Off & Away auctions more than once? And that with every consecutive auction they are making significantly less than the first time?

Or maybe hoteliers appreciated the increased exposure and maybe thought that that was where the value of the Off & Away promotion was?

Let's examine the results from a typical Off & Away campaign (company information):

- Off & Away Daily marketing Email Blast: 21,000 recipients
- Open rate: 20% i.e. 4,260 people
- Click-Through-Rate: 7% i.e. 298 people
- Off & Away Website visitors during the 3-day auction: 29,000 (this is the whole website) i.e. less than 10,000/day

- Unique Visits to the Property Auction Page: 1,500
- Unique bidders: 70

Where is the additional exposure? 70 unique bidders? 1,500 visitors to the property auction page? 298 email recipients? The own website of any of the properties from the above case studies receives 10,000 – 20,000 unique visitors per month. Each of these hotels receives more clicks from their email marketing blasts. So just imagine, not taking into consideration for a moment rate parity concerns and commitments, that the hotel announces a three-day 95% discount sale on its own website. Couple this with promotions to the hotel's own email list and social media audiences. At least 1,500 unique visitors to the hotel own website will see this three-day promotion. If we add email recipients, and the word-of-mouth and social media effect, we could easily expect this exposure to double and triple.

In my view, the "increased exposure" via Off & Away does not provide any meaningful benefits to the hotel. On the contrary, such an exposure is a serious "brand killer" and "rate parity destroyer." How would a luxury hotel "convince" the travel consumers that a \$300-\$500 rate per room/night is a good value, when in the same time the hotel is giving away two-night luxury suite packages for below \$50-80? How would the hotel justify its demand to the OTAs for lower merchant commissions (e.g. from 25% to 20%) when it is ready to provide discounts of 90% and up to a site like Off & Away?

Based on the above analysis, I am ready to declare it official: this is by far the dumbest hotel distribution idea!

Is the Auction Model Good for the Industry?

There is nothing wrong with the auction model in hospitality. Back in the 1990s, I co-founded Travelbreak.com, a direct supplier-to-consumer online travel marketplace with three auction platforms (classic auction, Dutch auction and reverse auction formats).

But any travel auction needs to be done in a smart way and the hotelier must be in full control of the process and the outcome:

- The Seller (i.e. the hotelier) needs to be able to determine a "minimum price" to start the bid. Example: if the face value of the package is \$2,000, the minimum or starting price could be set at \$1,300 i.e. this is the price below which the package would not sell. In this case the starting price is 35% below face value.
- The Seller must control the bid increments. Typically the bid increment is based on 1%-3% of the face value. Example for a package with face value of \$2,000, the bid increment should be at least \$20.
- The Seller must decide how many inventory units to sell: one unique suite package or 10 room packages of similar value.

And you do not have to look far to find good examples of travel auction sites and sound auction business models. eBay (since 1995) and SkyAuction (since 1999) have been successfully operating travel auctions. Hoteliers have been using these sites to auction gift certificates, packages, all-inclusive vacations, spa services, vacation rentals and even signature bathrobes and luxury bedding.

Case Study: eBay

With more than 94 million active users globally, eBay is the world's largest online marketplace, where practically anyone can buy and sell practically anything. eBay's collective impact on e-commerce is staggering: In 2010, the total worth of goods sold on the site was \$62 billion!

A Snapshot of eBay's Lodging Category on June 22, 2011:

- 3520 listings in the Lodging category
- 663 listings in Vacation Packages category
- Hotels, vacation rentals, bed and breakfast offerings
- Sales Formats:
- Auctions, buy-it-now, classifieds

Sample Auctions:

Two-Night Stay BC Hilton Whistler Resort Spa Junior Suite

- 16 bids
- Minimum price (controlled by Seller): \$147.60
- Current bid: 187.60
- Bid increment (controlled by Seller): \$2.50

Two-Night Stay BC Westin Grand Vancouver One Bedroom Suite

- 11 bids
- Minimum price (controlled by Seller): \$235
- Current bid: \$290
- Bid increment (controlled by Seller): \$5

Conclusion:

Hoteliers need to stick to the fundamentals in hotel distribution. The industry needs to be smarter than that and not to fall for these “innovative distribution models” that are neither new nor revolutionary, but are simply dumb and make no sense in any respect: economic, pricing or branding.

Off & Away with its 90% and above discounts from face value and Flash Sales sites like Groupon, Living Social and SniqueAway with their 65%-75% discounts are clear examples of the “Innovative Distribution Idea Hell” that has descended upon the industry since the beginning of the recession.

In addition to the obvious reason that selling your hotel via Off & Away or a Flash Sales site like Groupon is the “lazy man’s approach” to distribution, some hoteliers assume that selling through these sites is “free” and provides additional “exposure.” As discussed, the damages to the hotel price and brand integrity are far more severe than many hoteliers realize, and far outweigh any perceived or advertised benefits.

The bottom line for hoteliers: stay focused on the direct online channel. Hoteliers must carefully employ ROI-centric initiatives including website redesign, website optimization and SEO, SEM, email marketing, online media and sponsorships, mobile marketing and proven social media initiatives.

About the Author:

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