HOLD YOUR HORSES!

Getting a Grip on the Reins of Distribution Channel Management

by John Burns & Jon Inge

Distribution channel management has been a hot topic in the reservations and marketing arenas for at least the last couple of years. Almost daily we've identified another new horse to add to the marketing team, pulling us along to profitability. But we seem to have acquired more reins than we can handle, and have trouble trying to control an unruly mix of young and old energies, racehorses and steady plodders.

Things are beginning to settle down a little after the recent merchant model madness, and the wild team is beginning to catch its breath and start accepting the constraints of a harness. It seems like a good time to review just what's going on, how different things really are from past practices, and how we're beginning to handle this new team of horses to get them all pulling together.

What Is Being Distributed?

When we talk about distribution channel management we are distributing an inventory of our available room nights, stretching far out into the future, as well as function space and catered events. This inventory is kept either in the property management system (PMS) onsite and managed locally, or in the chain brand's central reservations system (CRS) and managed centrally.

This ownership of the inventory is important to keep in mind. No matter how many travel agents and online merchant models may claim to have an inside edge to available rooms, they can only offer what the hotels make available to them, and their costs for these rooms are what the hotel has agreed to charge. The merchant resellers may have made some money marking up room nights last year, but they didn't steal those room nights; the hotels provided them, albeit at rock-bottom prices.

Increasingly hotels also have to offer spa, golf, dining and other services and time slots desired by travelers looking to build a unique travel or vacation experience. Some of these add-ons are controlled directly and others are obtained from outside providers. Travel agents and Web site resellers routinely offer air and car bookings with hotel rooms, bundling them in the early stages of a rapidly evolving process known as dynamic packaging.

What Is a Channel?

A channel is any specifically identifiable method that guests have at their disposal to check availability and make reservations. These include:

▪ by telephone to the hotel reservations clerks and hotel sales departments, the hotel chain's brand CRO call centers and national sales offices and representation company call centers such as Utell and VIP International

▪ via the Internet, including both hotel and brand Web sites, plus any other site where guests might reasonably look for specific types of properties and activities

▪ through travel agents, both traditional (using the airline global distribution systems (GDS) and those using the Internet-based alternative distribution systems (ADSs)

▪ through wholesalers and resellers, including merchants such as Expedia.com™, Travelocity™ and hotels.com

▪ via group function/meeting planning sites such as StarCite, PlanSoft and HotDatesHotRates, or through convention and visitors bureau (CVB) housing sites

Managing Channels Is Key

The goal of channel management is to maximize revenue by distributing the right proportions of guestroom, meeting room and recreational activity inventory across the most productive selling channels at the right times and at the right rates to attract the most profitable combination of guests.

None of this is new. It's just the age-old combination of marketing and revenue management (offering the right rate to the right people at the right time). As in so many other areas of our lives, what has changed is the impact of channel proliferation and increasing personalization, and markets being defined in ever-narrower niches.

We capture more detailed information on every client with each booking. Powerful data analysis and reporting engines are finally allowing us to sift through this mountain of valuable data to exert finer control over the process. Throw into the mix the way the Internet makes it easier for every traveler to compare prices and destinations, and for every hotel to check up on its competition, and it's clear that doing business has become more complex, more dynamic and more challenging to manage than ever.

In the past we would set aside a percentage of our guestrooms for the sales department to sell at discounted rates to groups. Now there often isn't a set limit, and each piece of business is evaluated individually. We can understand in greater detail just which company or group we're selling to, how much past business they've done with us, what we expect their future business to be, and what impact a decision to take this particular booking is likely to have on other potential business (all analyzed across more finely segmented markets). We can consider each sale on its own merits. The challenge is in managing this complexity of data and alternatives quickly enough to make sound, timely decisions.

Overall, the issues fall into the following areas.

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Identify the Right Channels

Picking the right places to put your inventory requires you to know how your existing guests find you and how they book with you, which aren't always through the same channel. And that means recording this information in as much detail as you can every time every guest contacts you, from an initial inquiry or brochure request through every individual booking. If they are responding to a magazine advertisement, you need to know which magazine and which issue. If they send you an Internet inquiry through a search engine, you want to know which key words they entered to start the search, with which search engine and starting from which originating Web site.

You also need to track which market segment each guest belongs to on each separate visit, or even phase of a visit, since someone attending a corporate conference may stay on for a few days of vacation, and could then legitimately be categorized under a different market segment. Since different segments tend to have different booking characteristics, you need to know what times of week, month or year they usually stay, how far ahead of arrival they usually book, and what channels they

(Above left) The pool and Gulf of Mexico from DiamondHead Beach Resort on Fort Myers Beach. (Above right) The courtyard at Bellasera Resort in Naples, Florida.

A S.P.I.D.E.R. to Control the Web

When Jaci Bennett, strategic distribution manager at SunStream Hotels and Resorts in Fort Myers Beach, Fla., was hired to manage the chain's property availability on the Internet, it quickly became clear that it could not be done manually. Seven properties' data needed to be posted to seven Web-based distribution channels. "We loaded rates in there," she said, "and then took a chance."

Help arrived in the form of **EZYield**'s S.P.I.D.E.R., which was implemented in early 2003 and has allowed her to maintain the same level of timeliness and detail in each of the Extranets that she does in her CRS. Bennett uses it to update availability, rates, allocations and stay restrictions (MLOS, CTA) simultaneously to seven Internet channels: Condosaver.com, Hotels.com, Expedia.com, Travelocity.com, Lodging.com, Orbitz and Quikbook.com.

Handling this all in one place is a major help, clearly, but the task is also helped by the S.P.I.D.E.R.'s selling rate strategy function. Once a rate and date range (or ranges) have been set for a hotel, previously established adjustments or off-sets are applied automatically to calculate and upload all other appropriate rates for each of the contracted Web sites. This allows her to maintain rate parity across sites, which she indicated is essential.

"Our third-party booking revenues were up $1.5 million in 2003 over 2002," Bennett said, "and I think that was due substantially to our implementation of EZYield."

Figure 1: The modern reservations productivity and control screen, showing weekly and monthly productivity by different channels and sub-channels and allowing a specific rate's date ranges and other factors to be adjusted. (Courtesy of SynXis Corp.)

usually use. Only then can you target your advertising to each segment with cost-effective precision.

In the past this kind of data could only be tracked in a fairly general, high-level fashion, either manually on spreadsheets or to the extent allowed by the limited number of guest profile fields and basic reporting capabilities included in most property management systems. More modern systems allow for more detail to be captured (though, for the most part, this is still a partly manual process). The newer systems have far more sophisticated data analysis and reporting engines. This combination finally offers a practical way to understand your guest mix in a world that increasingly demands different treatment for very specific and narrow market segments *(See Figure 1)*.

Assemble the Inventory Components

In simpler times it was sufficient just to allocate blocks of rooms at appropriate rates to specific resellers and periodically check bookings against the block to see if you had made the right judgment calls. It might be argued that many channels are on open (or free) sell, meaning the property is either open or closed for booking, without restriction. In reality, though, hotels do apply de facto blocks by closing the property when availability drops below a certain point, believing that they'll be able to sell the remaining rooms themselves at higher rates than the now-blocked channels.

The inefficiencies of the allocation approach are obvious. If the block doesn't sell, you're left with rooms someone else might have

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been able to move, and if the block sells out quickly you could have priced it at a higher rate. It doesn't allow for much in the way of market segmentation, either, since there is a fairly low limit to the number of different allocations a reservations or revenue manager can monitor manually.

What is holding this ultimate solution back is the technical challenge of interfacing all the disparate systems.

In this age of ever-increasing personalization, this already complex issue is complicated even further by the growing emphasis on dynamic packaging. Packages have always been a part of business, both from travel agents (usually a flight combined with a hotel room) and directly at hotels (room, meals and a variety of activities or amenities). The attraction for the guest has been less hassle, with one-stop shopping for a complete trip, and at least a perception of better price. The attraction of masking individual component prices within the total package cost to prevent comparison shopping hasn't gone unappreciated either, at least not by the suppliers.

The dynamic part comes in to play both on Web sites offering travelers the ability to add car and flight bookings to their hotel reservation (i.e. to dynamically create their own package on one site for convenience sake rather than necessarily for price savings), and at the hotel level in allowing guests to amend an existing package or itinerary by adding in their own combination of additional activities or hotels. Several specialist vendors offer dynamic packaging functions across the air/car/hotel worlds, and many modern property management systems allow special combinations of activities to be built into a custom package "on-the-fly" to meet a specific guest's requests. But it's still exceedingly difficult to tie these worlds together technically, so travelers can assemble all the components themselves on the Internet, with real-time access to the actual inventory instead of allocated blocks.

The ideal solution is obvious. There must be fully open access by each reselling channel to the inventory of rooms, cars, flights, tee times and spa appointments, in real time, with automated adjustments to rate and room availability. These adjustments should be based on a revenue management system analysis of booking pace and displacement costs, given the specific market segment – or specific person or company – making the inquiry. Clearly there are issues surrounding contracts and negotiated rates that need to be accounted for in such an approach, but even contracted blocks can be monitored automatically and alerts issued to managers for discretionary action at appropriate points.

What is holding this ultimate solution back is the technical challenge of interfacing all the disparate systems. Given the hospitality industry's notorious reluctance to upgrade its technology, these legacy systems run the gamut from character-based systems running 30-year-old airline TPF code (such as the airline global distribution systems and some hotel chain CRSs), through DOS-based, Unix-based and Windows applications of various vintages to browser-based products taking full advantage of Web services, all using a medley of databases that may or may not be ODBC-compliant.

Developing real-time, two-way interfaces between all players in this environment poses enormous challenges, both from the communications viewpoint and in terms of the individual system's ability to manage the analysis required. Great strides have been made with the ever-wider implementation of modern, Windows-based systems, which have far more sophisticated rate/revenue management capabilities built-in and much more flexible communications. This is especially true of those that have moved to XML-based interface engines such as **Springer-Miller**, **MICROS-Fidelio**, **Newmarket** and **InfoGenesis**.

In addition, many vendors have developed specialized interface engines to act as intermediaries between the component systems, both for traditional data-transfer interfaces (**Comtrol**, **NoBarriers**, **hubX** and **Newtrade** -now absorbed into Expedia) and to act as dynamic packaging tools in their own right (such as **Accovia**, **Datalex** and **Cendant**'s NEAT). Nevertheless, given the enormous installed base of older, uncommunicative systems throughout the industry, allocation blocks—and phone calls to various activity service providers such as golf clubs and spas—will continue to be necessary for a long time.

WestCoast Centralizes for Control, Consistency — and Customers

WestCoast Hotels has grown rapidly through chain acquisitions over the past five years, and now, including its Red Lion brand, has over 70 properties and 12,500 rooms. Trying to achieve online rate consistency with 70 different individuals each managing Internet reservation allocations across 12 different alternate distribution systems (ADS) was, to say the least, full of opportunities.

The recent implementation of a **MICROS** OPERA central reservations system at the Spokane, Wash. corporate office was the perfect opportunity to regain control, said Barry Hughes, vice president, distribution and marketing services for WestCoast and Red Lion. Centralizing third-party Internet distribution in Spokane has changed the alternate distribution systems from being distressed sales channels into full strategic distribution options. The 70 properties are now divided among three ADS channel managers, each charged with boosting booking volumes and ADR for the hotels in their respective portfolios.

Part of this task involves monitoring local competitors as well as their own properties' performance and adjusting rates and allocations as frequently as necessary. This is considerably easier, Hughes said, through a new partnership between MICROS-Fidelio and Australian reporting and BI analytics vendor Lasata, which pulls in comparative Internet booking data for each property's peer group. WestCoast is the U.S. launch customer for this partnership.

The ADS channel managers now monitor CRS data from Lasata in combination with macro-equipped Excel spreadsheets they created, to ensure accurate and timely participation in 12 alternate distribution systems. Ten of these online sites are interfaced electronically to the OPERA CRS; Expedia.com and Hotels.com allocations are currently managed manually via their Extranets, although interfaces are scheduled for them as well in the near future.

Maintaining data in 12 ADS sites is clearly a daunting challenge, one that requires staff with a full-time focus. Is participation in that many online sites worth the effort? "When you're not a national brand," Hughes said, "the alternate distribution systems are tremendously valuable in extending your reach." In addition, he points out, concentrating contact with the alternate distribution systems through just three staff members has led to far better relationships – and better access to sales opportunities – than was the case when 70 people were managing the process individually.

And finally, there's the ultimate bottom line justification; since the centralization installation of the ADS bookings are up over 200 percent.

Price Them Correctly

There are three aspects to the thorny issue of pricing.

1 First, set an appropriate room rate at the property level based on your own market niche and revenue management estimates.

2 Second, price a package properly, given the lack of revenue management systems to balance FIT and corporate/group business with air and car availability/pricing and spa/golf activities revenue.

3 Third, make sure your price stays competitive with your peers as they adjust to meet market conditions.

The first point encompasses the traditional area of revenue management techniques; knowing the potential value of this particular customer, the cost of potential transient business displaced by this discounted rate booking, weighing the booking pace compared to previous years, and so forth. The second point factors in the increased complexity of the demand for other travel-related modes and guest activities. Some sophisticated meeting planner sites can estimate the lowest-cost city for a meeting based on the attendees' home airports and the costs of the various alternative flights and hotel guestroom and function quotes, but even they don't factor in ancillary guest activities. The third point has been turned into a whole new ballgame by the Internet and the price transparency it brings. Calling around to check prices doesn't cut it any more. The situation is too complex and too dynamic to track manually. The everyday traveler has access to the latest Internet tools, such as SideStep, to show them the lowest price currently posted on any Web site for the particular travel request they've submitted—flight, car and/or hotel room. You had best use tools at least as sophisticated to make sure the lowest rates are on your own Web site if you claim they are, especially if your brand franchisor makes it a legal requirement.

Naturally, a number of companies have moved in to fill this gap. Vendors such as **TravelCLICK**, **TIMS**, **Travel Axe**, Rubicon, **Electrobug**, **Rate Gain** and **eRevMax**'s RateTiger provide rate-comparison services in varying levels of detail to show how your currently posted rates compare with those of your competitive peer set on the GDSs and Internet-based sites. In a sign of the increasing levels of integration that are beginning to make this whole situation more manageable, hotel-focused revenue management companies such as **IDeaS** are beginning to offer links to these rate-comparison services. This gives properties the chance to incorporate their peers' posted rates into the pricing matrix for any specific piece of business.

All this readily available and transparent information places a high premium on getting the terms of hotels' negotiated rates and contracts with the various reselling channels as clear and fair as possible. If a merchant reseller has a contract with you guaranteeing them the right to pay only the lowest rate you publicly post over a given time period, don't think you can get away with a last-minute, ultra-low special rate posted for a few hours to drum up business over an unexpectedly slow weekend. They're watching closely and you'll be stuck selling them rooms at that rate for quite a while.

Manage an Increasingly Dynamic Environment

So you've identified which channels are the most productive for you, for a relevant but still intimidatingly large number of market segments, and you've acquired the tools to set your rates profitably and competitively, both in general and for specific pieces of business. Managing all of this to keep your prices and distribution up to date as conditions change daily, even hourly, requires automation. Few people have the mental bandwidth or time to manage more than five to seven channels manually.

Fortunately systems vendors have made considerable progress in the development of these tools. Most modern property management systems have quite sophisticated rate management tools, which automatically open and close the rates available to various channels according to booked occupancy and other parameters. With the right two-way interfaces to central reservations systems and, from there, on to the global distribution systems and Internet booking sites, these changes can quickly ripple through to all the appropriate distribution channels in real time.

That level of connectivity is currently only available to the major hotel chains that have had the clout and resources to develop seamless two-way interfaces from their central reservations systems back to their properties' PMSs, and out to the global distribution systems as well as the major Internet-based vendors who pick up their inventory from either the CRS or global distribution systems.

For the many more properties that lack these connections, many vendors offer tools to allow simultaneous distribution allocation adjustments to be made to all or sub-sets of the global distribution systems and your preferred Web-based channels. These include such industry stalwarts as **Lanyon**, as well as **EZYield**, **SynXis**, **Hotel Booking Solutions**

and others, including the more modern PMS/CRS combination systems *(See Figure 2)*. As with any automated tool, a good screen design (a thoughtful approach to displaying information clearly and guiding a user through the various steps required) is essential to simplifying management and maximizing productivity. Even the most powerful tool will go underused if it's too hard with which to work.

Don't neglect your own Web site, either. It's an essential and lowest-cost channel for bringing zero-handling-fee bookings directly to your property. Maximizing its effectiveness means putting a premium on Web site design and functionality. Your site needs to be easily found (through constant search engine optimization, and possibly the use of pay-per-position placements on key search sites) to encourage people to use it, both for general bookings and in providing access to a wide range of rates and discounts for different groups and individuals. Another way to draw traffic is by offering guest profile self-management. Striking a balance between a clean, clear layout and providing enough information and options for the typical visitor is extraordinarily difficult, as witnessed by the vast number of cluttered, look-alike Web pages out there. But it's really important, especially for independent hotels, which need every advantage they can get to stand out from the crowd.

New Challenges

As if the increasingly fragmented marketplace wasn't enough, a couple of other challenges have been growing in the last few years from the corporate travel sector. One of these is the gradual shift of corporate travel management policies to limit options to specific hotel brands, and to require those brands to provide Internet booking at negotiated rates through a corporate Web site. This is really only a specific application of the need for central reserva-
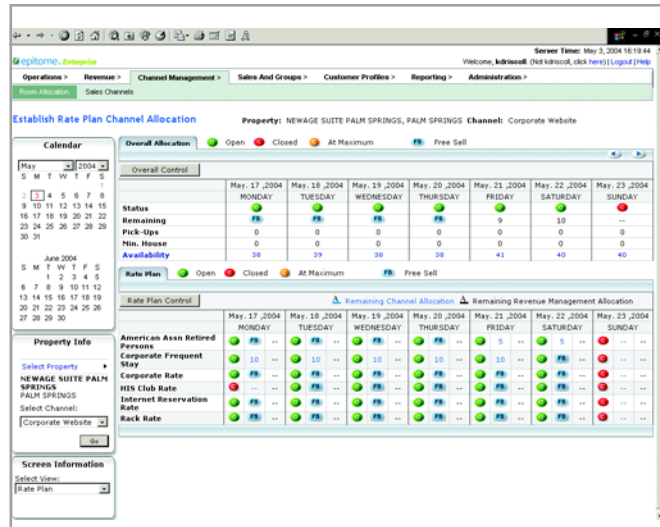

Figure 2: Multiple rate management-per-distribution channel, showing different rates Open with an Allocation Block, Open and Free Sell or Closed for different dates on a single channel.
(Courtesy of Hotel Information Systems Inc.)

tions systems and property management systems to provide appropriate interfaces and to recognize certain market segments during the booking process so they can quote the right prices. An increasing wrinkle, though, is the request that the hotels provide e-folio transmission from their PMS back to the corporate accounting system to simplify expense accounting.

Another trend is the growing use of the Internet for companies to locate the best deals for corporate meetings. Meeting planner sites such as **PlanSoft**, **StarCite** and **HotDatesHotRates** report that they sent out four times as many electronic RFPs from their Web sites last year as in 2002, and see no slackening in this growth.

This trend will require increasing sophistication at the property level to accept electronic RFPs into the sales and catering system and provide automated revenue management evaluation and lead-response functionality. Significant strides have been made. **Newmarket**'s NetXchange Meeting Broker is one example, but clearly much progress is still to come in this rapidly expanding arena.

One challenge that does merit widespread attention is not technical at all, but rather the need for more specialized revenue management training at the property level. No matter how experienced the person, it's unrealistic to give a reservations manager the new title of revenue manager and expect them to be immediately effective. Modern distribution and revenue management is a complex, specialized skill and warrants specialized training.

What Is the Answer?

The answer lies with a closer integration between all the systems involved, more complete, accurate and accessible information, a greater flexibility to control pricing offers, and more activity package options offered dynamically at the time reservations are made. This requires business cooperation between vendors as well as significant technical development. Good progress is being made on both fronts.

Ask any of the more modern systems vendors how they communicate with other systems, and you'll hear the universal mantra of XML/OTA, the potent combination of the most flexible interface architecture yet developed (XML) and the widely-accepted data definitions produced by The OpenTravel™ Alliance for messages across hotel, car and air travel systems. Web services in general (of which XML is just one component) are making it much easier for newer systems to talk with one another, and within the hotel industry there are heartening numbers of vendors cooperating on the best ways to do this, encouraged along by the Hotel Technology - Next Generation (HTNG) initiative.

But it's not easy for the huge installed base of old legacy systems to adapt to these new approaches, and it's going to be a considerable time before all the areas they serve can be brought into the real-time network. All this points the way toward the probable consolidation of vendors into fewer providers, each offering more complete travel offerings.

This is more than a technical or vendor cooperation issue. Good business practices and sound judgment are at least as important, as evidenced by the somewhat panicked reaction to the recent downturn and the rush to the merchant model. More comprehensive and better-analyzed data will always help, but the fundamentals of rigorous pricing and inventory management need to be in place first in order to use it wisely.

These include a good understanding of the nature of the hotel's specific market and guest mix, translated into detailed and realistic forecasting. This process generates a pricing plan based on revenue management principals (and may justify technology if there's

a sufficient return on that investment for the particular property), but still requires disciplined, detailed inventory management in adherence to that plan.

Don't forget to tap all available resources from your brand or representation company, too. Given the widely available access to the global distribution systems and Internet booking sites to any hotel, these companies' once dominant role as access providers has lessened considerably. Their value is now much more reliant on the degree to which they can promote the individual property and bring business to it. Take advantage of everything they have to offer, both in the way of services and expertise.

Driving the Team

The team of horses required to pull a property to profitability will always be varied, and the right mix will be different for each. A better understanding of each horse's lineage, strengths and weaknesses, the right balance of different breeds, and better-trained and better-equipped drivers will keep you in the lead all the way.

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