

intuitive report

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Making sense of hotel sourcing and selling

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Overview

An understanding of how to source and sell hotel beds is vital for most travel companies.

But it's far from simple, with a myriad of different options that can be complex, time consuming and expensive.

In this report, we explore those available options in this fast-changing market and, with contributions from several experts in the area, we examine how travel companies can navigate them to provide the best service for their customers.

In Part 1, we set the scene with a quick review of how the markets evolved before going straight into a layman's guide to the maze of current options in Part 2.

In Part 3 we'll examine the challenges and solutions facing travel companies and offer them a one-stop shop to ensure they have the best communications for their business.



Part 1

How things were...

Until the turn of the century, hotel sourcing and selling was a fairly straightforward business.

Travel companies would send their senior executives into resorts to negotiate the best deals that they could for rooms throughout the summer. These contracts would be taken back to their offices and loaded into a system for sale.

Typically, companies guaranteed to pay a fixed rate for a certain number of hotel rooms, knowing that they would either lose money or make very small margins in May and October, but expecting to make profits in June and, in particular, July and August.

They would sell the hotel rooms as part of a package through high street travel agents.

"It was a relatively straightforward model and one that worked very well in those days," said Andrew Botterill, executive chairman of Travcorp Holdings, which owns the two online travel agents (OTAs), Destination2 and HolidayGems.

Everything changed with the growth of no-frills airlines and the ability to book online. The airlines offered customers the flexibility to fly to holiday resorts at a relatively low cost, for any number of days. They were no longer stuck with the rigid format of 7 or 14 night holidays.

This opened the door for a new accommodation player in town; companies that developed flexible relationships with hoteliers and negotiated rates with them for any number of nights.

“It was a relatively straightforward model and one that worked very well in those days”

Andrew Botterill, executive chairman, Travcorp Holdings

They were quickly dubbed 'bedbanks' and one of the first on the scene was Medhotels, founded by entrepreneur John Kent, which launched in 2002 and reported earnings of £15m within four years.

Bedbanks worked with travel agents, who themselves were starting to move online. Agents realised they could act like tour operators and offer a package of a hotel bed and a no-frills flight to their customers.

The knock-on effect of all this was that tour operators became reluctant to commit to taking so much bed stock from hotels.

"The change in the landscape meant that everyone could do more creative deals," said Botterill.

"We quickly went from a hotel selling a commitment to a company for several months, to a much more complicated system with a myriad of suppliers and different systems needed to support the deals."

Part 2

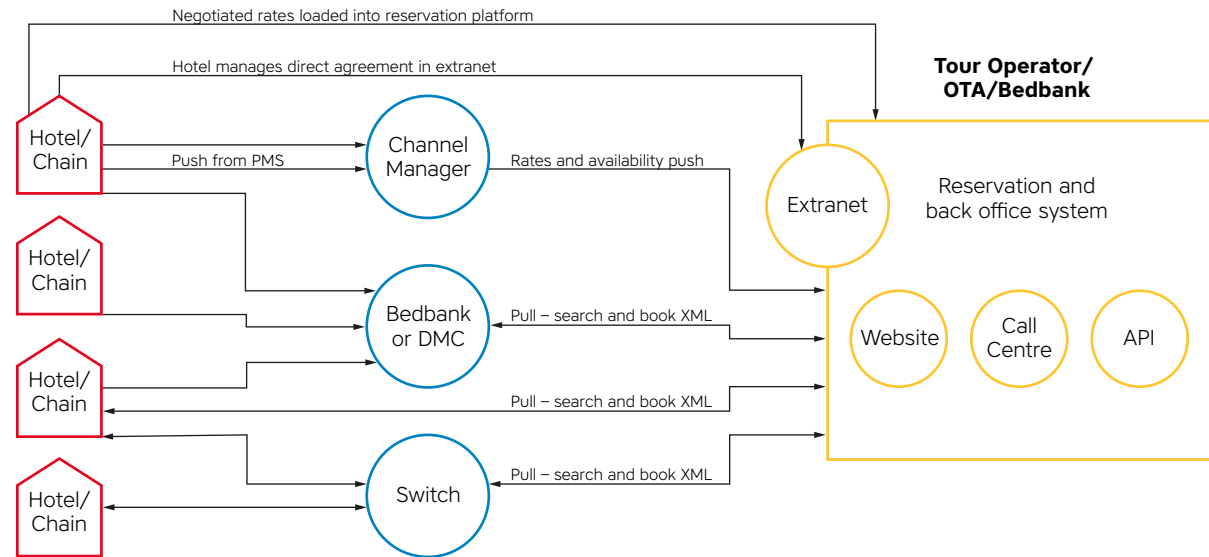
The current options...

Fast forward to today and words that are typically used by industry insiders talking about hotel contracting and selling are: **'complicated'**, **'complex'** and **'fragmented'**.

Good high street travel agents are still thriving, but of course many have an online presence and there has been an explosion in growth of pure OTAs.

There are various different options for these travel companies to connect with hotels and many of those are interlinked and ever-changing.

The technology behind the scenes is constantly evolving to satisfy the growing demands of customers. Holidaymakers want instant, accurate results to search requests and travel companies have to be able to satisfy those demands to stay in business.



"Like everything in travel, it's complicated," said Lawrence Hunt, industry veteran and now chairman and managing director of digital marketing agency, addmustard.

"If you drew a picture, it would look like spaghetti. We could really do with a common platform or system that everyone connects to, but there isn't one."

In this section, we look at the different ways of sourcing and selling hotel beds today.

Bedbanks

A force in the industry

The basic bedbank model hasn't changed. These companies contract large numbers of hotels and retain relationships with them. They resell them to agents and operators.

Bedbanks have flourished and are now widely used by travel companies to get access to hotel beds.

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There are estimated to be over 100 bedbanks in the industry and they have consolidated into a few major players and many smaller companies.

Two of the biggest players are Hotelbeds Group and Webjet.



Hotelbeds Group bought GTA and Tourico Holidays in 2017 and recently announced it would phase out its TravelBound, TravelCube and GTA brands. It claims to have a portfolio of over 170,000 properties worldwide and offers 47 million room nights, each year.

In 2017, Webjet agreed to acquire for £200m the combined JacTravel and Total Stay operation, which had a combined turnover in excess of £360m and relationships with over 14,000 independent and chain hotels.

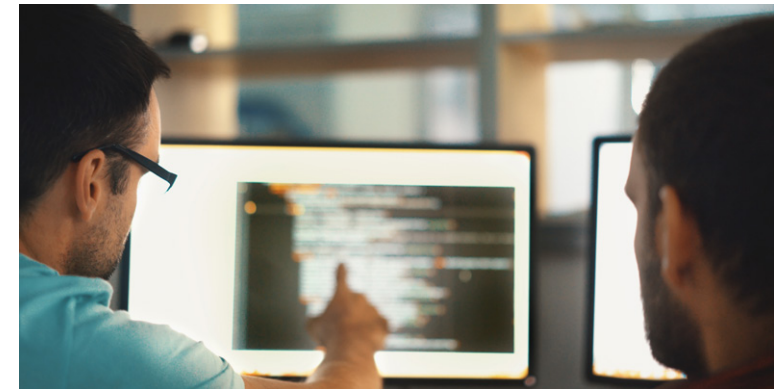
OTAs want control

However, some of the bigger OTAs are becoming less reliant on bedbanks, preferring to negotiate directly with hoteliers. This is partly to get the best rates possible, but also to develop a relationship with hoteliers that they can't have when they contract from a bedbank.

On The Beach, a large and successful OTA which reported group operating profit before costs of £30.3m in the 12 months to 30 September 2017, is one company that prefers direct hotel contracts.

"In 2014, 95% of our hotels came through bedbanks and we had zero relationship with hoteliers there. Only 5% came from contracting," said Bill Allen, chief supply officer at On The Beach.

"My job was to change that. Now 70% of our beds are through direct contracting and we can make an extra 4-5% margin by cutting out bedbanks. When we went to hotels, they were stunned at the numbers we were doing, because they didn't have a clue. In some cases, 80% of a bedbank's bookings were coming from us."



Crucially for Allen, he feels he can offer a better service when On The Beach has a direct relationship with a hotel.

"It's difficult for a bed bank to ensure that 50,000 hotels have the right description. We work with hotels to ensure that the details are correct," he said.

"We get far fewer complaints dealing direct with a hotel, rather than a bedbank. Hotels don't want to overbook with us."

Bedbanks can save time and money

Bedbanks, though, still have a big role to play.

They may, in some cases, be able to negotiate better rates than a travel company (typically an OTA or tour operator) or have a wider range of hotels. Also, travel companies may simply not have the will or resources to deal directly with every hotel they sell.

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“Bedbanks are still very useful,” said Allen.

“A company would use a bedbank if they don’t have the technology or the scale required, or if the bedbank has a particularly good deal. We have 30% of our business, or £100m of revenue, going through bedbanks, so it’s still a considerable part of what we do.”

Botterill said that going it alone, without using a bedbank, can cost a company time and money.

“There’s a whole raft of things at the back end that need managing,” he said. “Take, for example, payments. If you’re working with a bedbank, you’ll get one invoice for lots of hotels. If you’re doing it yourself, you’ll get individual bills from hotels. All that takes time to manage, resources and, ultimately, money.

“To justify a direct contract, you need to be doing volume.”

Brett Collins, director of tour operator Kenwood Travel, which has an annual turnover of around £90m, said it uses bedbanks for some of its US business.

“We do have contracts with some bedbanks, because it’s just not worth our time to have a direct contract with some of the hotels in the US,” he said.

“On the other hand, we have a direct contract with, for example, the Atlantis in Jumeriah, Dubai, because it costs too much to go through a third party and pay them.”

Collins said that dealing with bedbanks is not always straightforward.

“One bedbank can be linked to another bedbank and then another bedbank, so you can end up going through two or three companies.”

Allen believes there will be further consolidation among bedbanks.

“There has already been a lot but it’s inevitable there will be more because the margins are small. You will either have to be one of the huge players or a small specialist in a particular market,” he said.

Destination Management Companies (DMCs)

Traditionally, a DMC would represent a tour operator in resort, carrying out various ground handling roles for the company and having a collaborative relationship.

Gradually, though, the lines between DMCs and bedbanks have become blurred, with many DMCs performing the same role as a bedbank in different destinations.

However, this is a gradual process over time. The technology used by some is not as advanced as that employed by bedbanks.

“It’s taking time for DMCs’ technology to catch up, especially among the smaller ones,” said Andy Keeley, Commercial Director of travel technology company, intuitive.

There are numerous DMCs in Europe. World2Meet is an independent DMC with a significant bedbank in Spain. Jumbo Tours has its own bedbank and specialises in Spain and the Balearic Islands.

“It’s taking time for DMCs’ technology to catch up, especially among the smaller ones”

Andy Keeley, commercial director, intuitive

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"We will use bedbanks, DMCs and have direct relationships," said Botterill. *"What drives that is the proposition."*

Channel managers

Huge impact on the industry

The emergence of channel managers and switches (these are discussed later) have had a massive impact on hotel sourcing and selling.

Essentially, they are companies with the technology to connect thousands of hotels to hundreds of travel firms. The travel companies can use channel managers but still maintain the relationship with the hotel.

The channel manager operates a 'push' system. Hoteliers log into a channel manager to make changes to rates and inventory that get pushed out into the reservation systems of multiple companies. The reservation systems hold the inventory and wait for further pushed updates.

There are dozens of channel managers in the industry. Among the larger players are SiteMinder, which connects 24,000 hotels to 350 websites and RateTiger, which works with over 9,000 hotels.

Hotel companies work with them because they have the power to log on to a channel manager's system and make changes to rates in one place. The travel companies like working with the channel managers because they can have connectivity to a large number of hotels but still maintain relationships with those hotels.

Power in the balance

On the face of it, there appears to be a shift in the balance of power to hotels, as they can make rate changes at will, depending on supply and demand, as opposed to the old model of guaranteeing rates for travel companies.

But it's not quite as simple as that. If a travel company is selling a considerable amount of a hotel's stock, it will be able to negotiate favourable rates.

Also, if a hotel is having a poor season, it might have to drop rates drastically to attract holidaymakers. In a previous world, it would have had guaranteed rates from a travel company and it was that company's problem if sales were slow.

Channel managers have also enabled the smaller travel firms to have a relationship with hoteliers.



"The channel managers have made life easier for the independent agents," said Hunt.

However, it's not all plain sailing for the smaller agents. The complexity of the systems on offer can be a headache for agents with few resources.

"An OTA typically needs to connect with a lot of connectivity partners to ensure they have an option for all their hotels," said Alan Josephs, a San Francisco-based industry consultant and former vice president of hotel distribution at Travelzoo.

"The big OTAs might even have over 50 different connections. So it's very complicated and a barrier to entry for smaller OTAs."

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Personal relationships remain crucial

On The Beach uses channel managers but says it does not come at the expense of a personal relationship with a hotelier.

"You link to one channel manager and get access to lots of hotels," said Allen. "In Spain, 70% of what you do with hotels is through technology.

"But it replaces paperwork, not the relationship. We have contract managers speaking to hoteliers on a daily basis, managing that relationship. With the channel manager, we have the relationship with the hotel."

Josephs said that far from replacing humans, the technology has led to more people on the ground, constantly managing relationships with hotels.

"It's so expensive and labour intensive and I'm not sure it can continue like this"

Alan Josephs, industry consultant

"There are so many people out there – literally thousands – working on behalf of big companies, managing relationships with hotels and trying to get the best rates and ensure the content is accurate," he said.

"It's so expensive and labour intensive and I'm not sure it can continue like this."

It's all inter-linked

Confusingly, it's not uncommon for a bedbank or a DMC to also work with a channel manager to link to hotels. Here, the bedbank or DMC can retain the relationship with the hotel.

Steve Endacott, non-executive director of various companies including the OTA Alpha Rooms, expects consolidation in this market.

"We'll end up with less than 10 channel managers," he said. "The big are getting bigger and the small players are getting smaller."

Another development has been the emergence of companies offering a hub for channel managers and those switches that we'll discuss later.

Spain-based TravelgateX is one of those companies acting as a hub for around 40 channel managers or other firms offering

connectivity. It processes 1.5 billion requests and around 20,000 bookings daily.

Jose Diaz, chief commercial officer of TravelgateX said: *"When everything is so complicated, there is a niche for us to simplify everything."*

"We are a little piece in the engine of the industry and we deal with the best companies who need connectivity."

Switches

Similar but different to channel managers

Switches are companies that also have the technology to link multiple hotels with travel companies.

Technically they are different to channel managers because they operate a 'pull' system. A travel company will pull rates from a switch that is directly linked to a hotel chain. There are no rates or inventory held in the travel company's reservation system or the switch itself; it all comes live from the hotel chain's system.

But to many in the industry, switches and channel managers are pretty much the same thing.

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"There are differences, but these are just technical nuances," said Diaz. "They are essentially all companies enabling hotels to connect to an OTA."

Endacott agreed. *"I can't really see any massive distinction between switches and channel managers,"* he said.

Those hub companies discussed in the previous are also working with switches, as they want to be able to connect to as many different systems as possible.

Shanghai-based Derbysoft is a switch that has developed custom software for some of the largest hotel chains, including Hilton, Marriott and the InterContinental Group.

"I can't really see any massive distinction between switches and channel managers"

Steve Endacott, non-executive director, Alpha Rooms

Meanwhile Dhisco, another switch, claims to drive over US \$13billion in annual hotel bookings.

Collins said switches give his company live rates with no human errors.

"Universal Florida works with Derbysoft, which goes straight into their system. We will go through Derbysoft to pull those rates for a licensing fee," he said.

"We cannot connect direct into Universal. When they offer direct connectivity, it's through a switch."

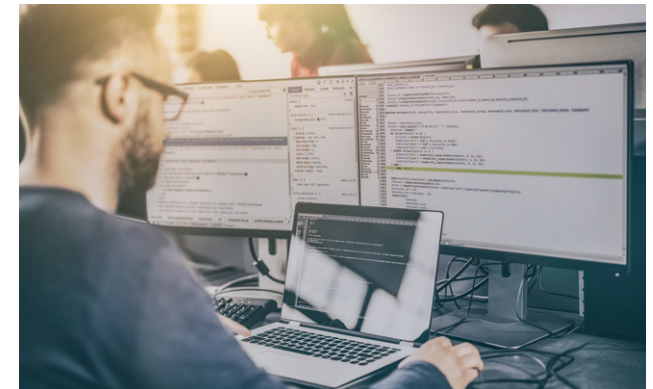
Extranets

Many travel companies have their own extranet sitting on their site, for hotels to make changes to prices.

But the technology is increasingly being seen as a bit dated compared to that offered elsewhere, for example by channel managers and switches.

"It's a little more clunky and doesn't have the same functionality," said Josephs.

"An extranet doesn't allow the hotel to share inventory across multiple distributors, so it's not efficient for them. Also, when the travel company makes a reservation it doesn't flow



back into the system, it has to be manually entered."

Botterill agreed that the technology is lagging behind other systems.

"The issue is around speed to market," he said. *"Most businesses want the best rate quickly and the technology is a bit clunky."*

Diaz believes extranets will continue to have a role to play, but will become less important in the future.

"It's not really scalable technology and the use will become quite limited," he said.

Global Distribution Systems (GDSs)

The major GDSs are Travelport (formerly Galileo and Worldspan), Amadeus and Sabre. They also provide connectivity for travel agents to sell airline seats and hotels, among other products.

However, they have primarily worked with business travel agents that are booking hotels in major cities.

Endacott is among those that are dismissive of their influence in the leisure market.

“They work with big chains in cities. Beach hotels are very different because in resorts throughout Europe, less than 20% is branded hotel stock,” he said. *“The leisure market is completely different and the GDSs are nowhere in world.”*

However, in this rapidly changing market, things could be about to change.

As if to underline the complexity of hotel contracting and selling, Amadeus has recently bought a large channel manager, Travelclick, for around £1.3 billion, to give it far greater access to the leisure market.

Amadeus’s two largest clients are InterContinental Hotels Group and Premier Inn, while TravelClick works primarily with mid-sized and independent hotels. Amadeus’s software previously reached 28,000 properties, but will now be able to connect to 53,000.

Luis Maroto, president and chief executive officer of Amadeus said: *“The combination of our two portfolios will allow us to [work with] hotels of all shapes and sizes across the world.”*

Diaz expects to see more of these deals. *“There is bound to be more deals. Connectivity is expensive and you need it to be successful,”* he said.

“The combination of our two portfolios will allow us to [work with] hotels of all shapes and sizes across the world”

Luis Maroto, president and chief executive officer, Amadeus

Part 3

The challenges

We've seen in the previous section how complex the market for sourcing and selling hotels is and how daunting it can be for any travel company.

Although many travel companies will have their own in-house reservations system, they need the best connections to be able to offer fast and accurate availability and prices to their systems.

As Josephs said in the previous section, it's very complicated and can be a barrier to entry, particularly for smaller OTAs.



The solutions

Going it alone

Undoubtedly, one option is for companies to develop their own in-house technology, to enable them to do all the work of connecting to bedbanks, DMCs, channel managers and switches, not to mention developing an extranet.

But unless companies have deep pockets, this is unlikely to be the sensible option.

Huge investment is required to develop the technology and there's a real possibility that it might not keep pace with developments elsewhere.

Even if a company has the financial resources, their system may not be designed to provide the required connectivity.

Time is also a huge factor. Going it alone can take months or years – something that travel companies simply don't have if they want to stay relevant to their customers.

"It can take weeks just to link to a channel manager," said Hunt.

"It can take weeks just to link to a channel manager"

Lawrence Hunt, chairman and managing director, addmustard

Partial solutions are available, for example connecting to an aggregator that can give access to certain bedbanks. However, this is unlikely to be enough for most travel companies.

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The intuitive solution

intuitive's iVector system can provide a one-stop shop for clients to ensure they have the best connections on the market.

And with intuitive's iVectorConnect API, they can stay on their existing platform and just integrate one interface from intuitive.

They will then have high performance, relevant and extremely capable technology, that constantly keeps pace with the changing demands of the market.

Clients will have the following benefits:

- Marketing leading direct contracting
- Links to 92 bedbanks, wholesalers and DMCs
- Links to 29 channel managers
- Links to 4 switches
- A supplier extranet
- Links to 9 chains

"Hotel sourcing and selling has been at the heart of our iVector platform since day one," said Keeley.

"Building on our market leading direct contract tool by investing in bedbank, channel manager, chain and switch technology has enabled us to offer the best possible connections in the market."

"The technology we've built has attracted partnerships with some of the biggest names in UK travel. iVector and iVectorConnect are currently used by Secret Escapes, Loveholidays, JacTravel and Fleetway Travel."

"The capabilities we deliver to our customers give them a technical competitive advantage in their marketplace."

intuitive can also provide a complete reservations platform for those clients that require it.

This includes a front office and back office system, website, call centre, payments system and Customer Relationship Management (CRM) system. It does this for around 70% of its clients through its iVector system.

"The capabilities we deliver to our customers give them a technical competitive advantage in their marketplace"

Andy Keeley, commercial director, intuitive

The logo for intuitive, featuring the word "intuitive" in a lowercase, sans-serif font. Above the letters 'i' and 't' are small colored dots: a red dot above the 'i' and a blue dot above the 't'.

To find out more, visit **intuitivesystems.com** or speak to one of our team on **020 3355 2200**.