

# DISTRIBUTION STRATEGY

## and Its Technology Infrastructure



by Cindy Estis Green

### Part 1 of 3

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**D**istribution strategy has quickly become the function in hotel marketing that can have the greatest impact on profitability. The online market for hotel reservations is large in 2004 and on a trajectory to be enormous. What started as the new venue for the larger chains has now evolved into a much more level playing field where chain and independent alike vie for the attention of the consumers' lucrative mouse clicks. In sheer volume, in 2000 about 20 percent of all bookings were made through GDS and Internet sites and of that total about 90 percent came from GDSs. That equated to about 2 percent of all bookings coming from Internet sites. PhoCusWright projects that hotel Internet gross bookings will reach \$15.5 billion representing 20 percent of all hotel revenue in 2004 and \$24 billion and 27 percent of all hotel revenue by 2006. These numbers represent averages though. There are independent hotels and smaller chains that regularly report more than 50 percent of their volume comes from electronic sources. If they are already well above the overall estimates for 2003 and 2004, it is likely they will continue to grow to a significant majority of their business.

All hotels, whether they are above or below the industry average, whether or not they are affiliated with a branded chain, need to fully understand their options and capabilities relative to their distribution strategy and tactics.

If the electronic boom is where the reservation action is, everyone wants in. Certainly, anyone who is not active is being left out of this growing pie of business volume. Some argue it is the same business that used to be booked through 800-number service centers (telephone), direct to the hotel (telephone) or by walking into the hotel. Therefore, some naysayers feel there is no incremental new business coming through these channels, so why should we now encourage customers to make hotels pay all these intermediaries to deliver the same business that used to come directly? Good question.

The goal is to *decrease the cost of distribution*

even if it is the same business. But it is likely to include some incremental new business that never would have come in the pre-Internet era. And if it's now coming to the hotels in a different way (new or not), each hotel had better learn to maneuver the terrain so they get their fair share. If one hotel is not there to get it, then another hotel certainly will.

Each hotel needs to learn which channels to address for *their* client base in *their* location.

Currently, most hotels want to be linked to the global distribution systems so their rooms will be available for sale to the thousands of travel agents using those systems. The four main GDSs are Amadeus, Galileo, Sabre and Worldspan. Hotels also want to have their rooms available on the hundreds of Internet sites where travel agents, consumers, business travelers and virtually anyone who might book a hotel room could find them. Further, hotels have come to learn that while it is highly desirable to be booked on the Internet, it is also highly desirable to increase awareness by consumers and travel agents through Web-based communication, even if the consumer decides to call the hotel directly to make the reservation.

All of this in concept sounds quite simple. However, to accomplish a broad online presence a hotel has a complex task ahead. The job of making hotel information, rates, room types and amenities available in a system that may need to be changed hourly if necessary is difficult. Attracting business volume to any single hotel in a place where tens of thousands are visible is another job in itself.

While not all hotels have traditional group business (therefore the group-related systems are less important), most every other system is essential and those group systems may bring in room-only groups that may still be important to those hotels with little to no meeting space. Dealing with so many disparate systems is the bane of every information system manager's existence. Some of these systems are largely the territory of the sales and marketing staff and many are under the auspices

There are 15 areas of technology that need to be better understood in order to build an infrastructure within a hotel, chain or management company to manage a distribution strategy:

- Central reservation system
- GDS connectivity
- Internet connectivity (third-party sites)
- Hotel Web site
- Branded chain Web site
- Web booking engine
- RFP Web sites
- Group/meeting reservation Web sites
- Sales and catering automation
- Property management system
- Revenue management
- Rate shopper systems
- Channel management systems
- Business intelligence systems (including CRM)



of revenue management. The connectivity between the systems is generally still the responsibility of the information technology specialists. It's a great deal by any measure.

The industry has reached a point where IT needs to view their distribution delivery system as a fully integrated infrastructure. There are too many implications of compartmentalizing the knowledge about these systems.

Building a technology infrastructure is a strategic not a tactical issue.

Operations, finance, marketing and senior executives should understand the technology underlying the new distribution

networks and the integrated solutions that are necessary to support them. The details of this technology can make all the difference to a hotel's success in this environment. Details like how well the systems can be integrated (XML) and whether or not they comply with travel industry standards like OTA are not just acronyms to let the technology team handle. The computer language/architecture XML facilitates integration between systems and OTA is the OpenTravel™ Alliance that has come up with standardized coding for data definitions to be used by travel technology companies. These details can make the difference between selling out

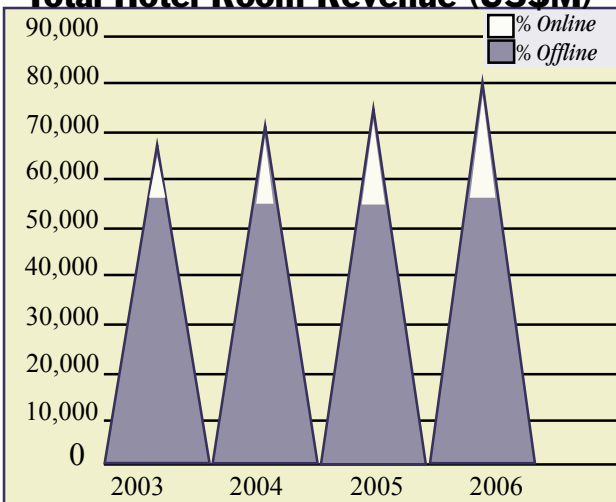
optimize revenue can only happen effectively with the use of better and more integrated technology solutions.

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The financial services industry (think Citibank and American Express) is a good model of how technology looks when it is a strategic imperative. Hospitality must follow suit in its own way. Fragmentation of its ownership and management combined with its high capital and fixed costs limit its ability to invest in its technology infrastructure. While there are practical challenges, technology still must be a high strategic priority. If hotels don't take the technology initiative, their online travel agency distribution partners will and the customer relationships will shift in favor of the most consumer-friendly systems.

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**Total Hotel Room Revenue (US\$M)**



Source: PboCusWright and AH&LA projections

or not; they can make a difference in \$20 in an average rate because the revenue manager was able to open or close allotments in selected channels in time for the demand flow at higher rates. The IT staff is no longer just responsible for sourcing systems that make staff more efficient and save money. They have to support management with the systems to find and bring in the revenue that's out in the marketplace. This central marketing function to

