

THE MERCHANT MODEL DEBATE CONTINUES



by Bill Peters



There is still much debate over the value of the merchant model that is being used by most Internet travel sites. Speaking with hotel associates and reading articles about the merchant model in trade magazines and online, the predominate feeling that I get, especially from city center hotels, is that the struggle still continues. “Who is in control of my rates, revenue, RevPAR and ADR? This merchant model is hurting my business.”

Keep in mind that it is the mega travel dot-coms that own the general consumer. When was the last time you saw a hotel company advertising on the television to the general consumer? When was the last you saw a mega travel dot-com ad? That’s right; the mega travel dot-coms are on most TV channels 24/7. The mega travel dot-coms have the advertising budget of which a hotel marketing executive can only dream. Every day you see the mega travel dot-coms battling for market share.

Actually this advertising is fantastic—they are keeping travel in the front of all consumers. These mega dot-coms are not only advertising but they are also sending new business to each and every resort and hotel every day of the year. In my opinion, this is excellent.

What is an owner or manager to do? It’s not your fault that the competition is giving their place away to these Internet sites. You have to follow suit otherwise your occupancy takes a hit, but now your revenue is taking a hit. The mega travel dot-coms will not negotiate their margin markup be-

cause of the size of your hotel. You either have to accept their 30 percent to 35 percent markup or not be listed on those sites. What are you suppose to do? Think outside of the box.

Here are a few suggestions:

If your hotel is a flagged hotel, a franchisee or a membership hotel, you should be using the clout of the franchise company or membership to help with this issue of margin percentage negotiations. Your franchise company or membership should be doing the negotiations with the big Internet sites such as Expedia.com, Orbitz and Hotels.com. The hotels in your franchise need to work with the organizations that they belong to and agree on a standard the hotels can live with and from which can make a profit. This is not giving the control of your business over to your franchise company as long as your hotel is involved with the decision-making process. The power is in numbers and if you negotiate with the big boys independently your hotel will suffer the consequences.

If you have not done so already, now is the time to work with your flag or the organizations or associations. It is essential that the agreed upon margins work for your hotel. This is where the monthly fees or dues that your hotel pays to these organizations come into the picture. Demand this service

from your franchise or association.

If you are a company-owned hotel, the same scenario applies. Some companies have gone this route already with price guarantees. They do not let individual hotels negotiate with the big boys on their own. It is done through corporate sales with the input from the field as to the hotel’s needs.

The hotels that may have the most difficulty are the independents. Use your membership affiliations and the power of your representation firm to help in this process. The representation firm can be a catalyst to help you establish your margins with the Internet big boys.

Use your association meetings to bring your fellow independent hotels closer to understanding your business challenges while you understand theirs. Then bring one and all to the table to agree on wholesale margin percentages only. This is not price fixing. Don’t discuss net rates, but instead discuss the margin percentages that your business can live with. It is then up to you to develop your net rates independently. It’s forming an alliance in regards to wholesale margin percentage markup and helping take back control of your inventory.

I know you may say that this is impossible in the real business world. It may be, but you will not know until you try. Alliances, franchise companies, associations and memberships can be powerful tools to the success of your hotel.

Does it make good business sense to avoid creating alliances with your competition just to give your revenue to a third party? I am not suggesting you price fix with your competitor. Pricing fixing should never be done and is against the law. I am suggesting that alliances be formed to address the margin percentage being offered by the mega dot-coms.

There needs to be a standard on margin markup. This makes the playing field equal for all involved: the individual hotel, the mega dot-com and most of all the traveling public. This way the traveling public is also protected from overcharging in any distribution channel.

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