



HSMAI is committed to growing business for hotels and their partners by **fueling sales**, **inspiring marketing**, & **optimizing revenue**.

Managing the Cost of Sales

HSMAI's Sales Advisory Board recently discussed the HSMAI Foundation published **Demystifying the Digital Marketplace**, (available at no cost to HSMAI members, code "HSMAI2016"), and were joined in their discussion by Cindy Estis Green, co-author of the report and co-founder of Kalibri Labs.

Part 1 of "DDM" is at a micro level, and describes the key players and current models. Part 2 focuses on hotel performance. Part 3, coming soon, will focus on what actions hoteliers can take to better manage their acquisition costs and reduce the cost of sales.

Why should sales people care? How do changing distribution trends impact direct sales? Simply put, the sourcing of group business is becoming increasingly intermediated. According to Estis Green, the cost of customer acquisition is central to the discussions for managing hotels because it is 15-25% of Guest Paid Revenue (for transient and group business combined). This amounts to \$25 billion across the U.S. hotel industry alone as of last year. This should be of concern as it is 3-4 times what it has been in the past.

From the Sales Advisory Board's perspective, their highest priority is to reduce the industry-wide cost of sales and customer acquisition. It won't be easy, but you have to start somewhere. For the last 20-25 years, the hotel industry has been building up intermediaries, and it will take time and effort to change this relationship and reverse the trend. Brands are trying to wrestle back control, get more direct bookings, and depend less on intermediation.

As financial executives focus more and more on the costs of sales and marketing, there is a trend to optimize business mix while taking into account the costs of acquisition. Some companies are taking action by rethinking measurements for their sales and revenue management teams - rewarding revenue net of acquisition costs.

Other measures getting attention include COPE (Control to Operational Profit and Expenses). This measures the revenue left after direct costs triggered by the transaction are removed. These include retail commissions, wholesale commissions, loyalty costs, transactional fees, and channel costs.

Net Revenue subtracts sales and marketing expenses (payroll, allocations from the brands, loyalty costs), providing the total cost of customer acquisition including the direct cost of the transaction.

Sales people (along with marketers and revenue managers) must think about the relationship between revenue and its costs. For years customer acquisition costs were relatively static, but now they are very dynamic with more costs going to third parties for group and transient bookings. Until the industry can quantify, measure, and manage these costs, it will be difficult to find a solution.

About **Demystifying the Digital Marketplace**

The data captured for this study includes guest stay and cost of stay information from 25,000 hotels including large, independent, and small properties providing more than 100 million transactions per month to analyze. External data has been used to augment this data, including supply and demand for Airbnb and consumer review data aggregating from more than 50 sources. The report also takes into account the loyalty effect, measuring how much the base of loyalty contributes to overall hotel performance.

The report looks at Hotel Collected Revenue (HCR) as reported by the hotel and posts to their P&L. But as we all know there is a portion of business booked that comes through third parties such as opaque OTAs, wholesalers, and merchant model OTAs where the guest pays the third party directly. When added to the Hotel Collected Revenue, this is defined as Guest Pay Revenue (GPR) and lets the hotel know what the customer was willing to pay for the room. In the U.S. in 2016, the HCR was \$120 and the GPR was \$123.

Some highlights from data gathered from 2014 to June of 2016 include:

- Guest Pay Revenue grew at 4.6% year over year. Net Revenue rose at 4%. In a perfect world, these two figures should be equal.
- OTA commissions are rising 3 times as fast as GPR.
- This is due to the amount of business subject to commissions.
- In the U.S. market, OTA commissions are 12.4% of total room night revenue.

- Retail Travel Agent commissions are rising in line with GPR growth.
- OTA costs are rising 2 times as fast as loyalty costs.

With more players entering in the OTA space, it is incumbent on brands and individual hotels to choose which players to partner with, as it will be impossible to effectively have marketing agreements with all players. As the OTAs collectively spend \$6 billion a year on marketing, it is important to gain exposure with the partners that can deliver the most exposure and deliver business to the properties.

The data gathered is used for industry benefit to help hotels and brands make better decisions based on measured information and help support the legislative and policy work of groups like AH&LA. It also is used to develop more education around the topic.

About the Author



Maureen O'Hanlon is a 25-year veteran of the travel and hospitality industry. As a partner with the Prism Partnership, she leads marketing initiatives large and small. Her primary areas of expertise are loyalty programs, sales and reservation training, customer relationship management, digital marketing, sales and marketing audits, and destination marketing.

Prior to joining Prism, Maureen served with Prime Hospitality as SVP of Sales and Marketing overseeing all marketing, advertising and communications efforts in addition to the National Sales efforts and reservations department. She also served for 16 years at Carlson Companies in a variety of roles including EVP of Marketing and Sales for Radisson Hotels and SVP of the Loyalty Division for Carlson Marketing Group.

Maureen is a past chair of HSMAI's Americas Board of Directors as well as a past President of the HSMAI New York Chapter. She has received numerous industry honors including being recognized as one of the 25 most influential industry executives by *Tour and Travel News*.

About HSMAI's Sales Advisory Board

HSMAI's Sales Advisory Board leverages insights, emerging trends, and industry innovations to fuel sales for hotels. Members include:

- CHAIR: Ed Skapinok, Vice President of Sales & Marketing, Hostmark Hospitality Group
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- Katie Davin, CHSE, Associate Professor, Johnson & Wales University-Providence
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