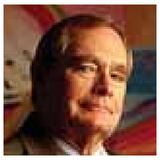
By Richard Eastman

Down The Drain

OK ... you're a travel manager overseeing a couple million ... or a couple hundred million ... of travel spend for a major company. So, what's the single most important aspect of managing your hotel spend? And how do today's existing and evolving hotel distribution structures impact this management task?

Make a note — jot your answer down before you read on.

It's actually a pretty simple answer ... but understanding this key element of hotel spend is essential to managing corporate travel spend and the inherent risk/cost of planning around a linear extension of the distribution tools you use today; particularly in corporate America.



Richard Eastman is president of The Eastman Group, which develops travel industry software solutions including software used by a number of major corporations to audit and track corporate hotel purchasing, pre-travel hotel booking and audit hotel reconciliation performance against actual bookings. Eastman concedes that many readers — including his own CFO — will take issue with some of the things he says here. "This story is intended to peak interest, inform and challenge interested readers to address the problem. They need to understand the problem ... and then determine if they need to solve it or not."

In casual studies across a number of large corporate buyers, most corporations only average 50 percent of their stay — nights in preferred hotels. On average, 20 percent of those preferred bookings are NOT at agreed-upon contract rates; and become commissionable even when the contract agreement precludes commissions. Concurrently, hotels often offer rates lower than the agreed "preferred" rates in a given contract (shades of the early 1990s, during the airline fare wars when all airline fares were lower than the contract rates).

These, and many more "imperfections" in corporate hotel purchasing, can be largely attributed to two factors. First is the business model that is dependent on travel management companies (TMCs) and GDS resources to enable corporate buyers to control and manage their buying. Second, and more important, is the fact that hotel property managers are measured and financially incentivized locally as compared with the centrally measured/incentivized airlines and car rental providers that use the identical distribution systems.

Let's take a look at a typical hotel booking — with the caveat that every company and every agent and every buyer has a slightly different approach. The purpose here is to structure an example.

Mary Jo Departs Dallas

The traveler, Mary Jo, is authorized (told/instructed/decides, etc) for travel to make a marketing trip from her home office in Dallas to three cities in California ... San Diego, Irvine and San Jose. Mary Jo's secretary calls the travel department (coordinator, or goes online to the company's approved Internet site) and books the air on the company's preferred carrier, a car at each of the three cities (this essay will not delve into the air and car aspects of this booking) — and a hotel room in each of the cities ... one night in San Diego at a property where the company has a contract non-commissionable rate, two nights in Irvine where the company also has a contract non-commissionable rate, and two nights in San Jose at preferred hotels with commissionable rates.

At the time of booking, it turns out that the Irvine property does not have any remaining rooms at the company's preferred rate. So the TMC agent/coordinator books Mary Jo in at the lowest rate commissionable available.

The itinerary is approved and sent to Mary Jo — and a week later she departs Dallas for her trip.

Mary Jo is an experienced traveler, and for the most part, her trip goes pretty much as she expects. She has no reason to report any problems back to the corporate travel manager or the agent.

She shows up at the San Diego hotel and is informed that the hotel is sold out of the rooms available at the company's contract rate — so the hotel clerk upgrades her to another room. Mary Jo arrives the next day at the Irvine property and everything is routine. Two days later she arrives in San Jose and finds that the property she was to stay in is fully booked. The manager profusely apologizes personally and "walks her" to a near-by hotel with a somewhat nicer room.

Now you tell me ... where did the corporate travel manager actually see the results of his/her negotiations?

And the answer is ... maybe all of them; maybe none of them! What could have ... probably did ... happen?

What Happens In San Diego ...

In San Diego, when the clerk upgraded Mary Jo, the booking status for the contract rate in the hotel property's own property management system (PMS) was changed to "cancel" and rebooked in the upgraded room with a higher, but commissionable rate. Any link to the distribution booking was lost. Accordingly, all of the cross-referenced corporate contract/agreement data was lost ... for both the hotel property AND the buyer.

Lost with the upgrade went any volume performance data that might be appended to the contract. The corporate travel manager's ability to track the fact that commission revenue was now owed was also lost; along with it, the ability to compare the difference between the non-commissionable rate and the upgrade price less the revenue derived by the commission. The corporate travel manager became totally dependent on the hotel's PMS system to accurately report back to the corporation what took place; with no audit trail or verification ability to validate the process.

Remember, this is not an actual scenario but one constructed as an illustration. But the data that has been collected suggests that this frequently happens because it is necessary for the clerk making the booking to force the old data into the new record. The data reviewed to date suggests that the volume performance data gets moved 15 percent to 20 percent of the time; or conversely, is dropped for one reason or another between 80 percent and 85 percent of the time.

The issue in Irvine is somewhat different. The TMC agent, whose work is funded by a fee paid by the corporation because all of the company's contract agreements are sans commissions, was unable to book the corporate rate in the GDS. The rooms allocated to that price were sold out. Thus, the agent quickly booked a room at a higher non-contract rate without bothering to call the property

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to see if the actual inventory in the property matched what was displayed in the GDS. As a non-contract rate, the rate became commissionable. Accordingly, the company paid not only the TMC's agent booking fee ... but the TMC derived additional commission revenue. That's fine if the commission revenue is passed through to the company under the terms of their agreement with the TMC; but that still assumes that commission can be traced back to the company's ARC account. Where a TMC uses an ARC account to serve many corporate clients, it becomes expensive and difficult to reconcile that commission revenue with a given client's bookings.

This issue of commissions is more relevant to a corporation that uses a TMC in an agency role or a CTD (Corporate Travel Department) that outsources the functional processes of travel management to a TMC. It would likely be irrelevant to a CTD that also provides its own internal staffing.

Commission checks are generally issued to ARC (Airline Reporting Corporation) or IATA (International Air Transport Association) numbers; not to individual corporations. Thus, by routinely upgrading any corporate contract booking to a higher level room, the TMC is able to enhance its revenue stream without the need to share that revenue with the corporation. As noted, this is particularly true when revenues become pooled with other commissions allocated to a generic ARC or IATA location.

In San Jose, another confluence in the distribution system evolves. The commissionable contract rate was not honored at the booked hotel property ... losing any performance criteria, revenue entitlements, or other incentives. Only Mary Jo and the "walked to" hotel property know what she paid for her hotel stay. There's no comparative data or commissionable entitlement information or even a notification process by which the corporate travel department can identify that another hotel was used.

Now just imagine the morass that would occur if Mary Jo had decided to spend two nights in San Diego ... driven herself to Irvine and showed up a day late in Irvine for two days ... and because she didn't get to San Jose when planned, ended up spending the weekend at a "weekend rate" in order to complete a scheduled meeting before traveling home. Given the broken schedule, the mismatched and restructured hotel property bookings, the GDS and TMC's inability to track these changes made on the road — hotel spend data is now totally dependent on the "honesty" of the various property management systems and the ability to reconcile that information with Mary Jo's expense account; which assumes that Mary Jo even bothers to notify the corporate travel manager that she changed her itinerary. Lost in this muddle is any knowledge of commission revenue entitlements, delivery on contract agreement criteria, and/or TMC entitlements.

Now if you're a natural skeptic, you are saying, "That never happens at my company. Our contracts protect against those kinds of things and our TMC makes sure that we get all of the commission revenue to which we're entitled. All you have to do is look at the financial reports they provide to us!" Yet these are all real examples that happen regularly and routinely in both contract hotel properties and properties where no contracts are in place. The examples cited are common in virtually all of the corporate travel accounts audited; all multi-million dollar hotel-booking entities.

As noted above, the problem is tied to two issues — the traditional travel control and management systems used by travel buyers — and the incentives and measurement criteria used in the industry.

Why It Doesn't Fit

Consider that the GDSs are the primary resource for corporate travel. The GDSs were created by the airlines. Airlines control their inventory ... the seats that they sell from Point A to Point B ... from a centralized hosting center. Equally important, they generally settle payment for the booked space in advance of travel and through a common ARC or BSP plan. The structure is common and standardized.

Flights are managed by market-pair ... and if a given flight is weak, incentives are created to fill a weak flight by centralized management tapping all of the resources of the airline's network. Managers are measured and rewarded against criteria tied to the ability to use the network to sustain growth across market-pairs and hubs. The distribution system "distributes" inventory and payment is made through the separate and standardized ARC or BSP structures.

Hotels, on the other hand, are locally managed. Inventory is stored locally for each hotel property. Hotel managers are measured on how their particular property performs when compared to other like properties. National chain brand names and incentive programs are designed to supplement the local property manager's work — not to control the local property's inventory.

If a given property manager has a large high yielding event filling the rooms at his/her property ... he or she is actually incentivized to "walk" lower revenue or lower yield guests.

The local-property mentality is further compounded by the fact that most hotels operate using well-established PMS solutions; legacy platforms that do not easily integrate into the contemporary world of digital transactions. In most cases, it is very expensive to link these systems to a distribution platform of any kind. Thus, these properties are linked using rudimentary communication protocols to the parent chain's distribution platform; which in turn, communicate with the GDS. In fact, most GDS hotel inventory is really a re-allocation of a local property's allocation given to a chain or central site for general distribution — not a direct reflection of actual availability that one sees for airline availability in a GDS.

And finally, there is no "common" settlement platform like ARC or BSP that is uniform to the hotel industry. Yes, there is Pegasus that collects data for a group of the major chains. But there are also TACS (Travel Agency Commission Settlement), WPS (World Payment Systems), and GCP (Global Commission Payments) ... all companies that provide hotel settlement solutions. As programmers are prone to say, "... each has its own industry standard."

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It is important to recognize that the core resource for booking ... or storing the data of a telephone or Internet created booking ... is the GDS. While the GDS distribution structure is directly linked to the ARC/BSP payment side of air travel — no such direct links or relationships have been created for hotels or hotel data stored in the GDSs. In fact, today's airline-created distribution systems were not ... and are not ... capable of following or tracking what happens in any given local hotel property PMS.

Since there is no prepayment for hotels, there is no need for the distribution system to track all of the changes that take place in an itinerary. Accordingly, the distribution system is a one-way information process — it sends information relating to the possibility that somebody will show up at a hotel in the future. There is no need on the part of the distribution system to track whether the person showed up or paid for the service, since that all takes place at the hotel after the service has been delivered.

Reconciliation & Reinvention

This cornucopia of mixed incentive programs, unaligned inventory management, and unstructured settlement processes results in a virtually unmanageable cost base for most corporate managers. The perception that hotel costs are being managed has been perpetuated by the TMCs' and GDSs' back-office corporate travel reporting programs that evolved over the past 40 years — deservedly so when it comes to air travel. But it's a total myth with respect to hotel management.

Many corporate travel managers recognize that something is amiss. Some attempt to reconcile expense reporting with the travel data reported by TMC models. While the air and car rental data (both centrally controlled) tend to reflect more closely what was booked, hotel reconciliations vary widely on almost all vectors — traveler, TMC commission reports, contract stay folios (chain or property), contract goals and incentives, etc.

Some strides are being made to overcome the inverse logic of the existing distribution system with the way hotel properties are managed. Virtually all of the GDSs have created new hotel inventory or inventory management tools to enable properties or chains to offer more contemporary pricing and availability via their GDS structures. And by default, virtually all of the GDSs are evolving blended systems; centralized distribution structures interacting with buyers and users through contemporary Internet structures.

Sabre, TravelPort and Amadeus have all upgraded their hotel distribution environment — but none of these new tools deal with the issue of tracking actual stays, revenue, upgrades or walks. They remain designed for distribution ... not to capture the information needed by a travel manager to manage a meaningful corporate travel program. And for the most part, these newer tools were also not designed to enable local hotel property managers or integrate with existing PMS tools ... the platforms that remain at the core of the measurement criteria upon which property manager careers are dependent.

In that sense, hotel property managers are no different than any of the rest of us — they manage their responsibilities against the measurement criteria set by their respective bosses. The vast majority of hotel managers are held accountable for revenue derived from their inventory using locally managed and controlled inventory tools ... and settlement made accordingly. There is no incentive for these property managers to provide feed-back information to the GDSs, the TMCs and/or corporate travel managers.

How Did You Score?

The first question asked at the beginning of this essay was, "what's the single most important aspect of managing your hotel spend?"

If your answer was tracking the settlement of purchases — you are a hotel-distribution genius! It is only by insisting on getting ... and then managing ... all of the settlement data pertaining to each element of the hotel spend that corporate managers will identify whether their current distribution tools are working for them or against them.

Studies among our major clients would suggest that the current distribution tools are costing most corporate travel managers between 15 percent and 20 percent of their hotel spend due to the inability to reconcile the settlement of each stay-folio. When one takes into account "upgrades" made to non-commissionable bookings, the percentage climbs almost another 10 percent. These are significant dollars for any size corporate travel department.

Confronted with this dilemma, corporate travel managers really have no way to know how to best deal with their hotel buy. Even assuming that their management process is effective in steering travelers into preferred properties, the ability to prove performance is speculative at best. And equally in question is the ability to identify properties or chains that merit negotiation in upcoming months.

Follow Purchasing's Lead

There is a clear trend to bypass the traditional distribution settlement structures in various ways.

Where hotel spend can be effectively identified, travel managers should begin to seriously address direct purchase agreements with integrated settlement. Just as a company's purchasing department would buy key components directly from suppliers, corporate travel managers should integrate such buys to their hotel purchasing programs.

Emulating this direct purchasing model with hotels that are frequently used would go a long way to eliminating the data loss that is inherent in the traditional distribution process. This model would be particularly important when using long term contracts to lock in lower rates and/or protect against annual hotel price or CPI (consumer price index) increases. By limiting the number of rooms at the contract rate, a local property manager can easily force upgrades of long term contract rates to higher revenue/yield rates without it being obvious. A direct purchase/settlement solution makes such a problem apparent to both buyer and seller and also enables a more open dialog on such issues.

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Concurrently, for smaller volumes, it might be appropriate to buy through a key single-source middleman ... a wholesaler who bulk-buys enough rooms for other uses in selected properties or markets to ensure the attention of the local hotel property manager. Since the wholesaler's purchase is typically direct, it is able to provide the positive and direct booking and revenue reconciliation needed for accurate hotel spend assessments. The added cost of purchasing through such an intermediary will more than pay for itself in the ability to manage and track your hotel needs with knowledge and confidence. But one must recognize that implementing such a process will also require new internal management controls and tools.

An obvious enhancement to either contract agreements and/or using a wholesale packager might be attained by pre-paying at the contracted rates — and issuing travel voucher (paper or electronic) to hotel properties. Such a model would create a platform for better control of hotel-spend, provide tracking and performance data for justification of renewing (or dropping) contract agreements, and provide like-for-like management processes between air and hotel spends. But such agreements would most likely be incremental at best. Innovating new ideas in travel is very difficult when another process is already well embedded in the business culture.

Still, without positive control of this magnitude, travel managers should shy away from long term contracts. Such agreements are unmanageable, unmeasurable and unprovable. Further, there is little incentive for the generic GDSs to capture spend data ... let alone track it ... on behalf of corporate travel buyers. And with no GDS incentive to perform this after-the-fact data reconciliation, the TMCs will have no ability to deliver travel spend information other than what was booked.

Broken Pipeline

A final element to consider in the hotel distribution muddle is the company's actual travel needs. The data we've seen to date indicate that it is only possible to reconcile about 40 percent of the GDS bookings with the company's entitlement (either commission revenue or contract discounted rate). The other 60 percent is "falling through the cracks" of the distribution and settlement system conflicts.

Yet it is not a fault in the distribution processes, but rather, in the dichotomy between a distribution structure built to serve centralized controls, data management and reconciliation — and hotels' property management business processes which are diametrically opposed to this type of distribution.

While new technology allows much of this to be done, the legacy structures of the existing PMS products make it very costly to implement at individual hotels. Because there are no incentives for local hotel property managers to provide this information, it becomes incumbent on travel managers to use these new technology tools to capture, reconcile and ultimately manage the data needed to control hotel spend.

Accordingly, corporate travel managers are confronted with building — or seeking the services of outsource vendors — that can reconcile data obtained from hotel PMS or hotel settlement solutions with the information used in planning and booking travel. BTE