

**2015
HOSPITALITY LAW
CONFERENCE**

FEBRUARY 9-11, 2015,

DEMYSTIFYING DISTRIBUTION

Presented by:

Mark Lomanno of Kalibri Labs



PRESENTER



Mark Lomanno

Partner & Senior Advisor, Kalibri Labs

- ❖ Mark Lomanno advises several start-up and investment companies in the hospitality and data space, including new BrandAnalytics, Duetto Research, Kalibri Labs and Thayer Hospitality Ventures
- ❖ Lomanno is the former President and CEO of Smith Travel Research (STR), the hotel industry's global lodging authority on current trends in hotel supply, demand, occupancy, average room rates and RevPAR.
- ❖ In 2011, Lomanno co-authored "Distribution Channel Analysis: A Guide for Hotels", which is believed to be the most comprehensive study on the lodging industry's on-line environment. Over 20,000 copies of the over 200 page report were downloaded in the first 2 weeks of availability



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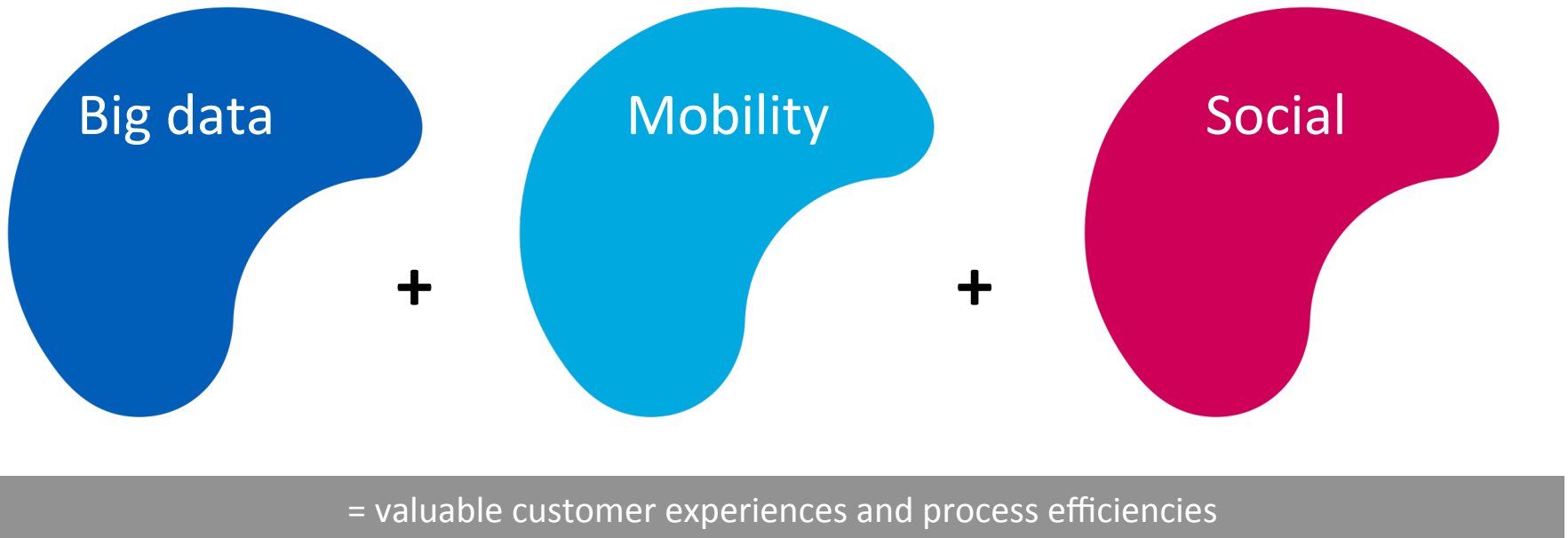
Agenda

- Market Outlook – Innovation & Travel
- Today's Marketplace and Implications for Resorts and Inns
- Revenue Strategy in the Digital Marketplace
- Conclusions / Q&A

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- **Market Outlook – Innovation & Travel**
- Today's Marketplace and Implications for Resorts and Inns
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Three big innovations converging in the technology space affecting hotels.



Amadeus: From Chaos to Collaboration 2012

This convergence is resulting in a set of **discrete 'enabling' technologies and innovations** which is beginning to allow the traveler to harness the experiences of friends, family and fellow travelers more intelligently and to experience travel differently.

2020: Tenets of technology convergence

Mass personalization

- Mobility - Self service, Big data - Customer knowledge, Social – Virtual assistance - connecting to places where customers are

Intelligent pricing & merchandizing

- Big data – Customer knowledge - Deeper analysis capabilities

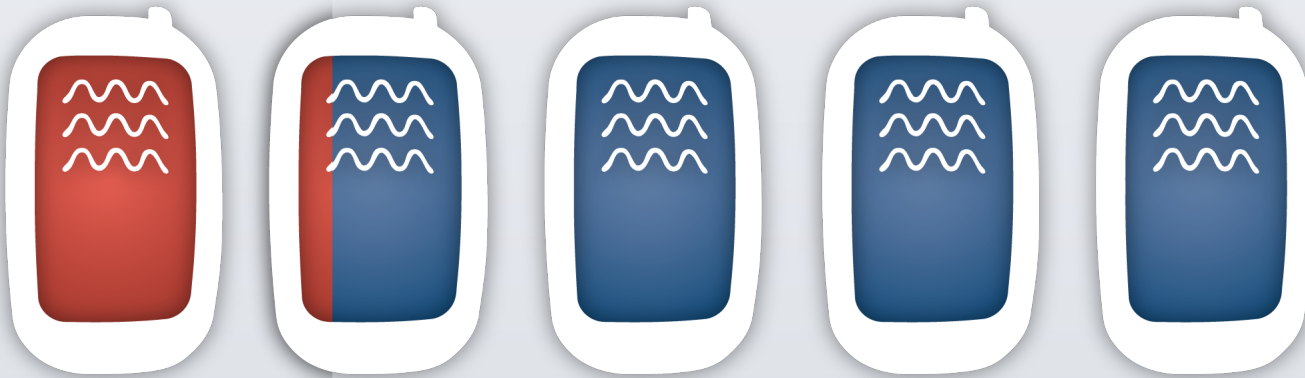
Intelligent recommendation

- Social - Experience and expertise sharing - Greater quality control - More personalized

Amadeus: From Chaos to Collaboration 2012

More than 80% of travelers read online reviews,
increasingly via mobile phone

Mobile is on the rise



22%

of smartphone owners read hotel
reviews on their mobile

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What's driving innovation today?

Innovation and opportunity

- **Changing demographics and consumer behaviors**
 - Desire for information, transparency, personalization and trust
- **Technology enablers**
 - Big data, mobility, social
 - Decreasing cost of transactions
- **New entrants and consolidation/M&A**
 - Customer obsession and innovation
- **Travel providers' response**
 - Major investment in infrastructure to connect to venues where customer's interact

New Consumers: Millennials

- Millennials (age 19 – 36) - the fastest growing segment for travel spending-- dominant customer segment for the next 20 years—**will reach spending peak in 2017**
- Renewed focus on younger segments, with targeted upgrades offering a more **digitally-savvy** hotel experience and a **more casual approach to luxury** that caters to this changing demographic.
- Ragatz Associates – more changes in consumer pattern behaviors in the past four years than in the prior 50 years:
 - Better educated and **do lots of research**
 - **Value is directly proportional to the memories guests create** from their stays: “Facebook moments”
 - **Thirst for experiences** means resorts must rely on the local community to help offer guests activities and programs that immerse them in culture.



New entrants: Commonalities

Information, no physical control of assets

1. Search and other technology companies

- Access to information
- Scalability
- Resources

2. New Business Models

- New ways for customers to engage, purchase and experience, harnessing technology in innovative ways

2020: The collaborative travel arena

Open systems and collaboration pave the way for:

- A new era of **greater information sharing and exchange**, facilitated by technology innovations, between **communities of travel providers and travelers**.
- New **ecosystem where information is freely exchanged** and the idea of one-way transactions becomes obsolete.
- Qualitative shift where service-users become partners rather than customers. Context is as important as the transaction.

Envision a **one-stop co-creation travel shop**, from planning to post trip to create the perfect journey with a single door to door combined ticket.

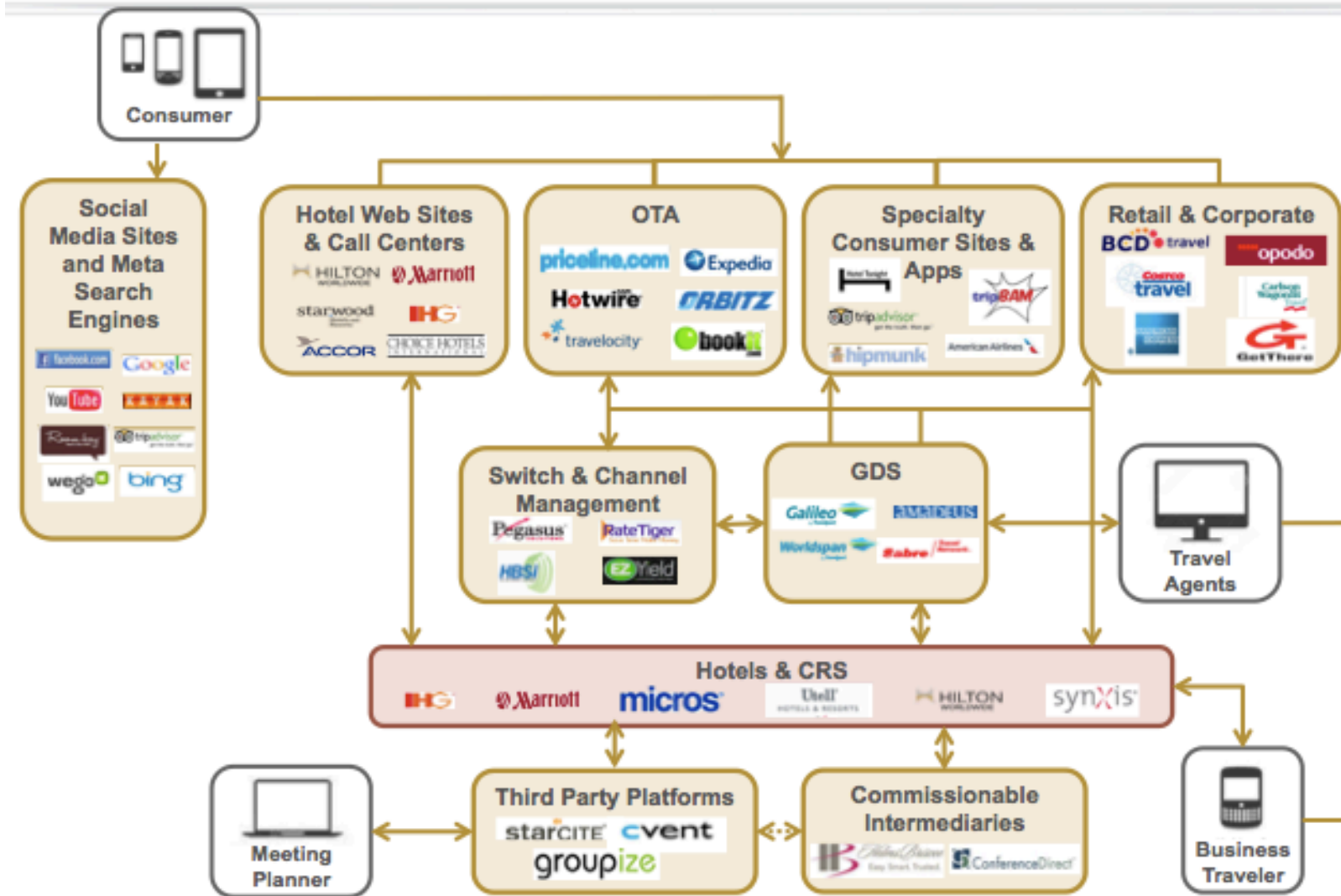
Amadeus: From Chaos to Collaboration 2012

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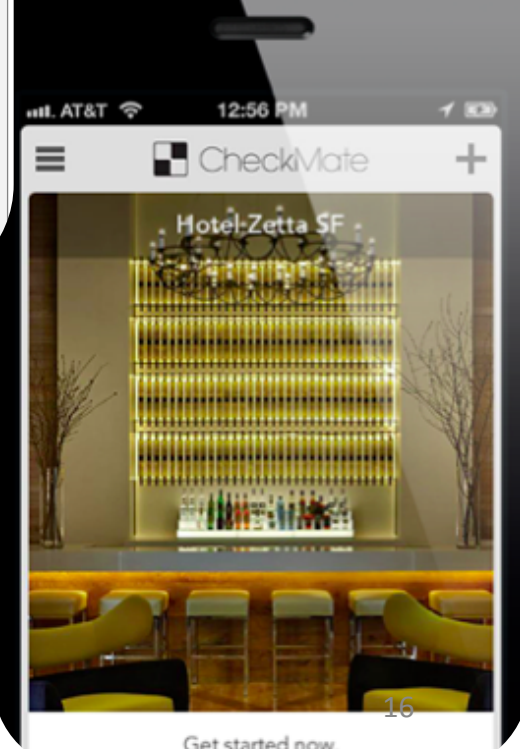
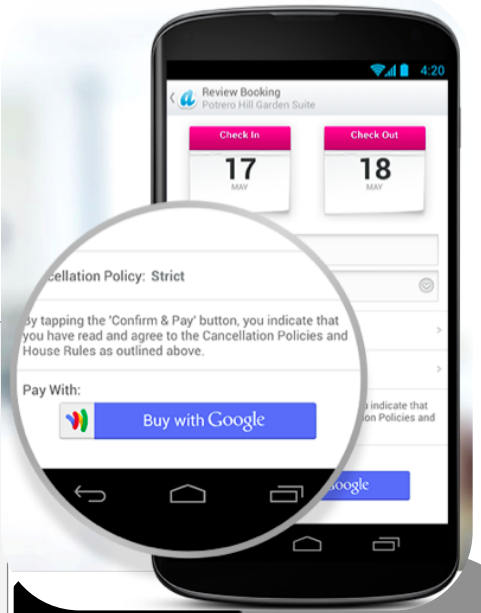
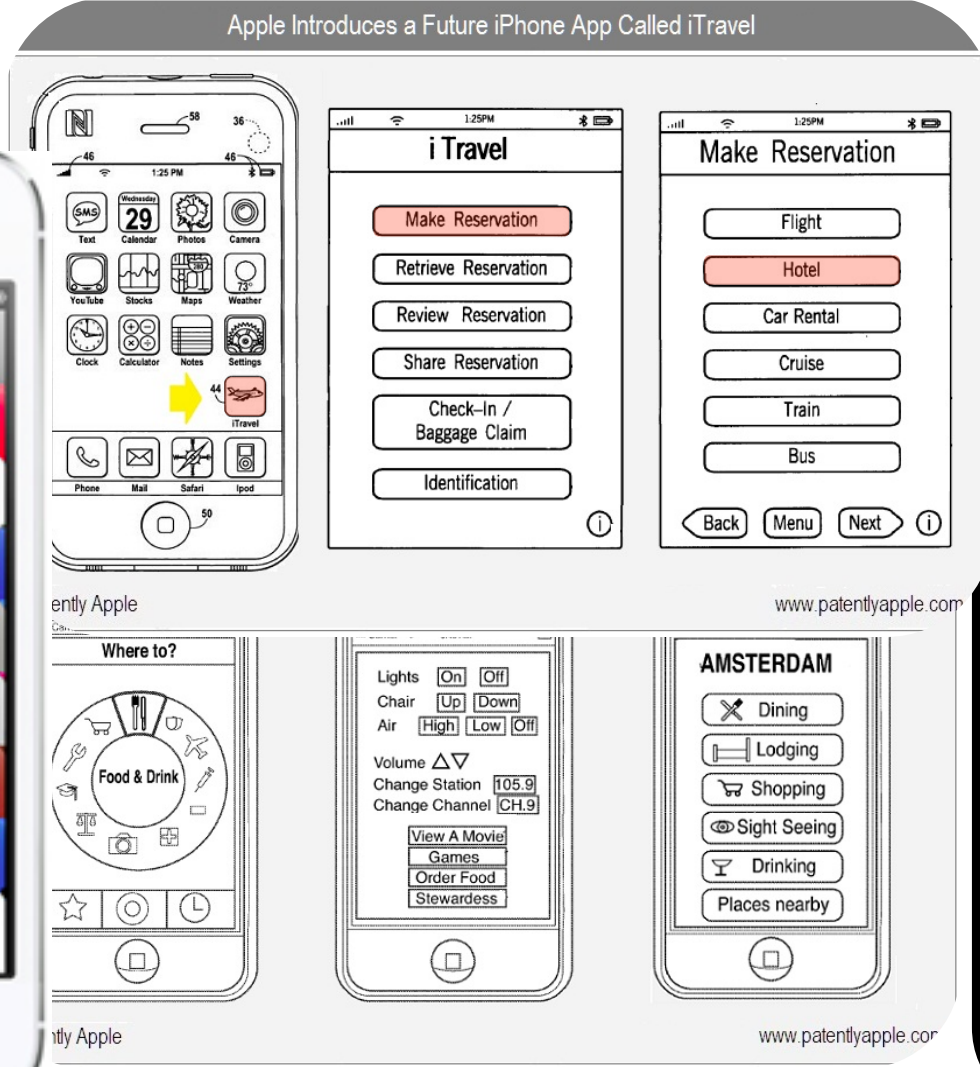
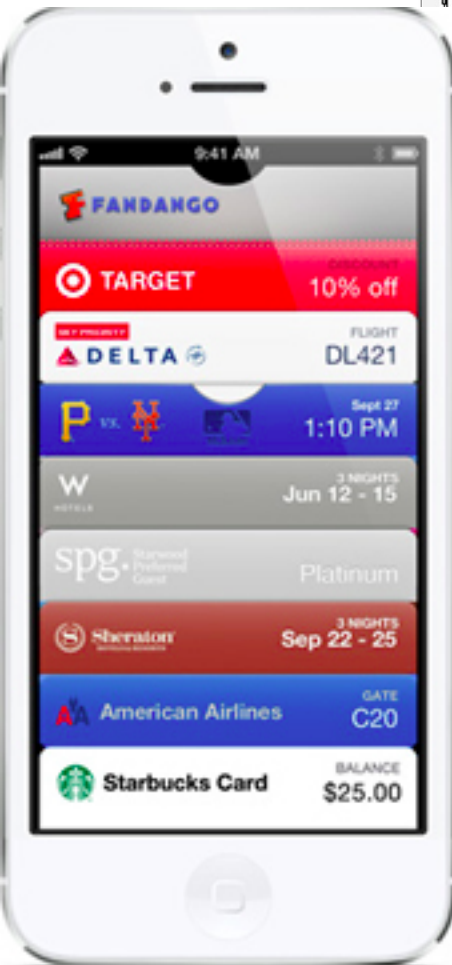


The Hospitality Distribution Landscape:

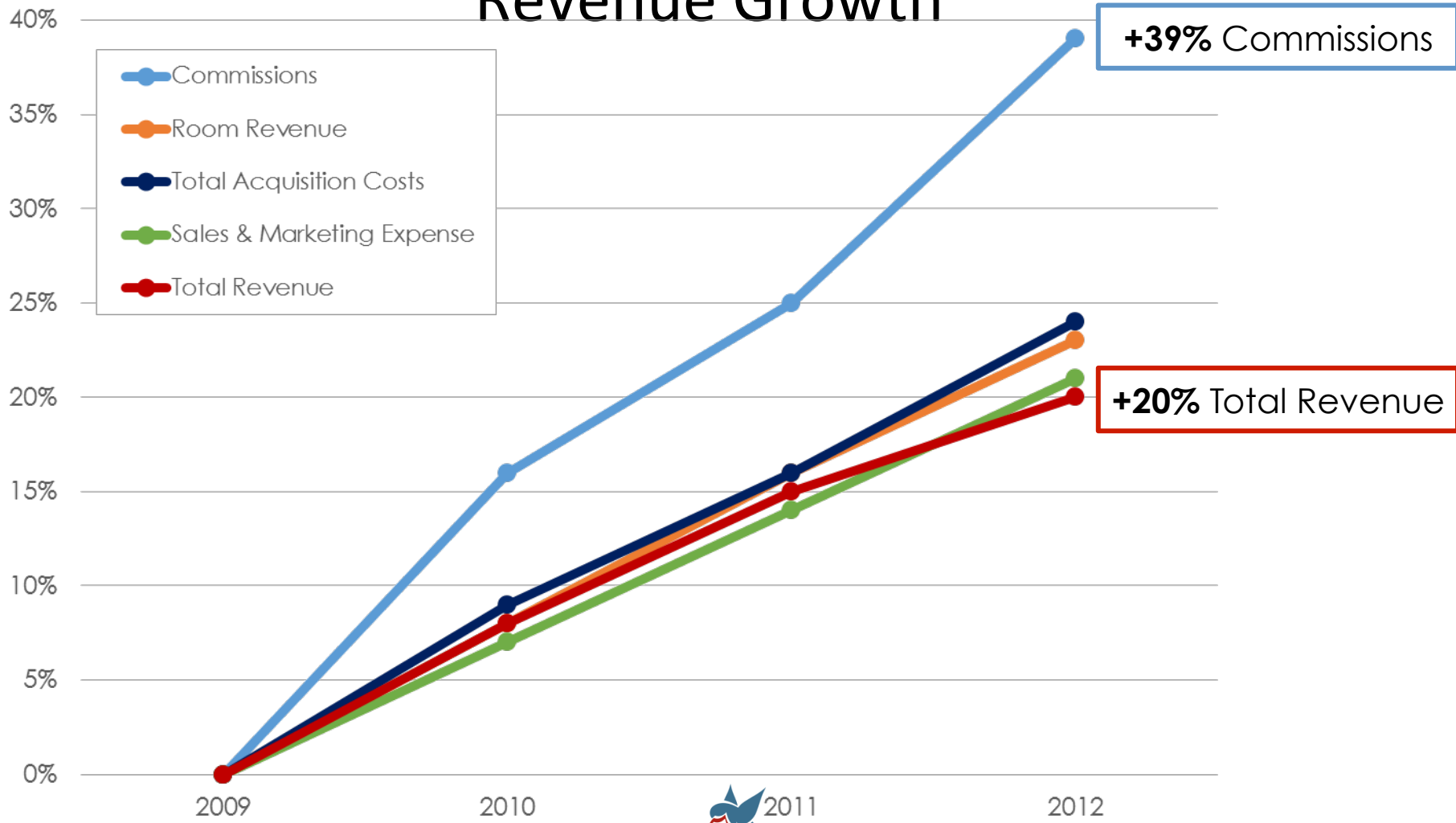


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Everyone wants a piece of the action...shop, buy, arrive, eat, drink, stay, and pay



Commissions Rise at 2x the Rate of Revenue Growth



Retail commissions only
Source: HAMA Study 2013-2014

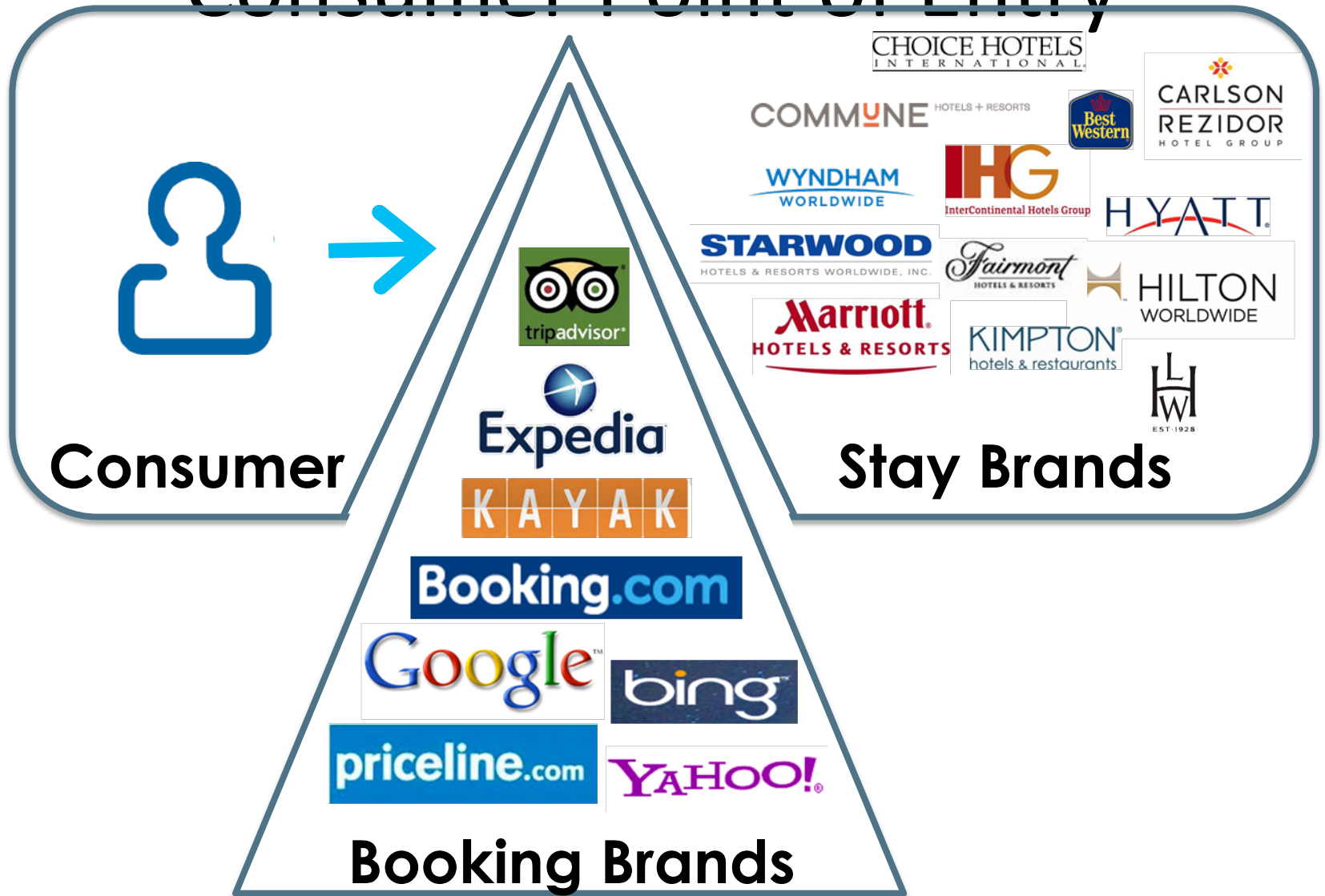
Acquisition Costs Can Be Driven Centrally or By Local Decisions

- Acquisition costs divided into five categories, two external and three internal:
- External costs:
 - Brand allocations – including those for Brand marketing, advertising, promotions, national and global sales offices, and loyalty programs.
 - Third party commissions – both transient/travel agent and group
- Internal/Property Costs:
 - Local/property marketing and sales programs
 - Local/property marketing and sales staffing and related expenses
 - Other local expense including reservations

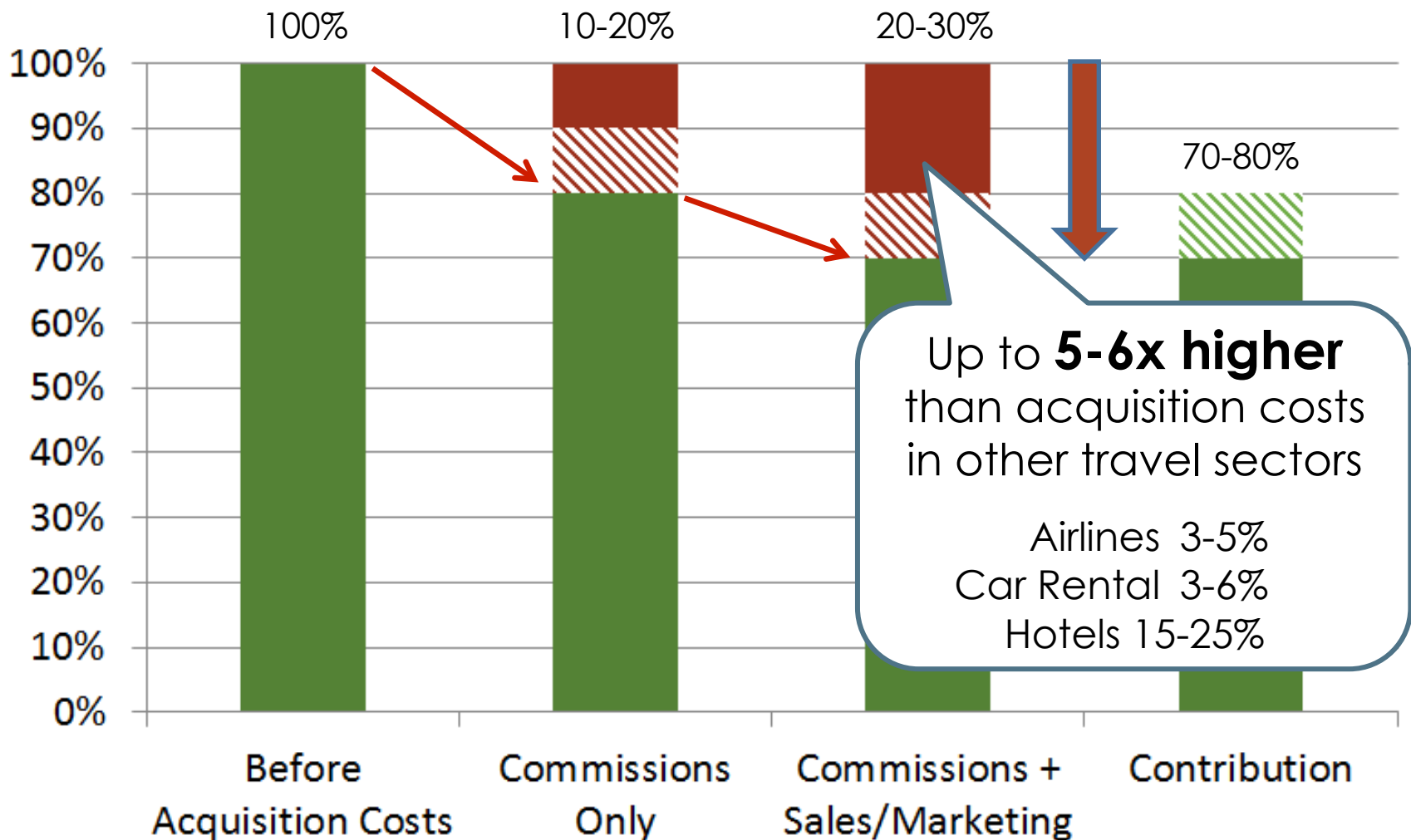
Historically Travelers Booked Directly with Stay Brands



Booking Brands Now Dominate Consumer Point of Entry



Customer Acquisition Costs Erode Profits



Source: 2012 NYC Study

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A New Era of Opportunity: Revenue Strategy

Is there enough
revenue?

How was the
revenue acquired?

What kind of business
are we getting?

How can we **optimize** net revenue?

What does our
channel mix look
like?

Was it cost effective?

Are our revenue
generation efforts
coordinated?

Threats

Owners: Cost

Brands: Consumer Access

Independent Resort and Hotels: Cost and Access





"Sara, have sales do that thing where profits go up."

Identify and Classify Customer Acquisition Costs

Costs to Support Shopping Process

Sales & Marketing Expenses



Direct Buying Costs

Commissions & Transaction fees



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The New Imperative: Net Revenue Metrics

Net RevPAR

How much revenue are you earning net of customer acquisition costs?

Contribution % (COPE %)

How much revenue is generated from each channel net of commissions/ transaction fees?

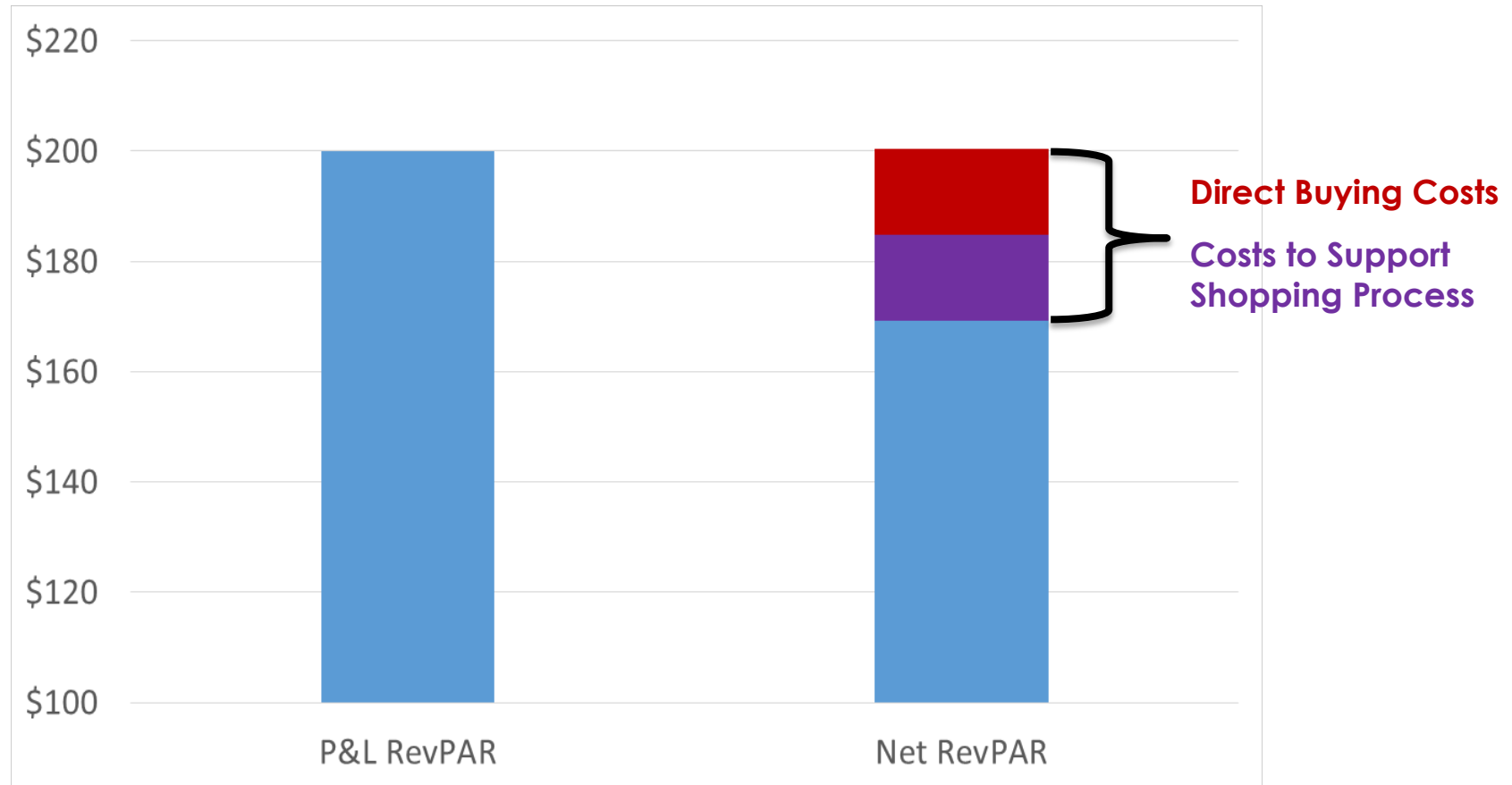
S&M Efficiency

How much net revenue is generated for every \$1 spent on Sales & Marketing?



Refining a Classic Metric: Net RevPAR

How much revenue are you earning net of acquisition costs?

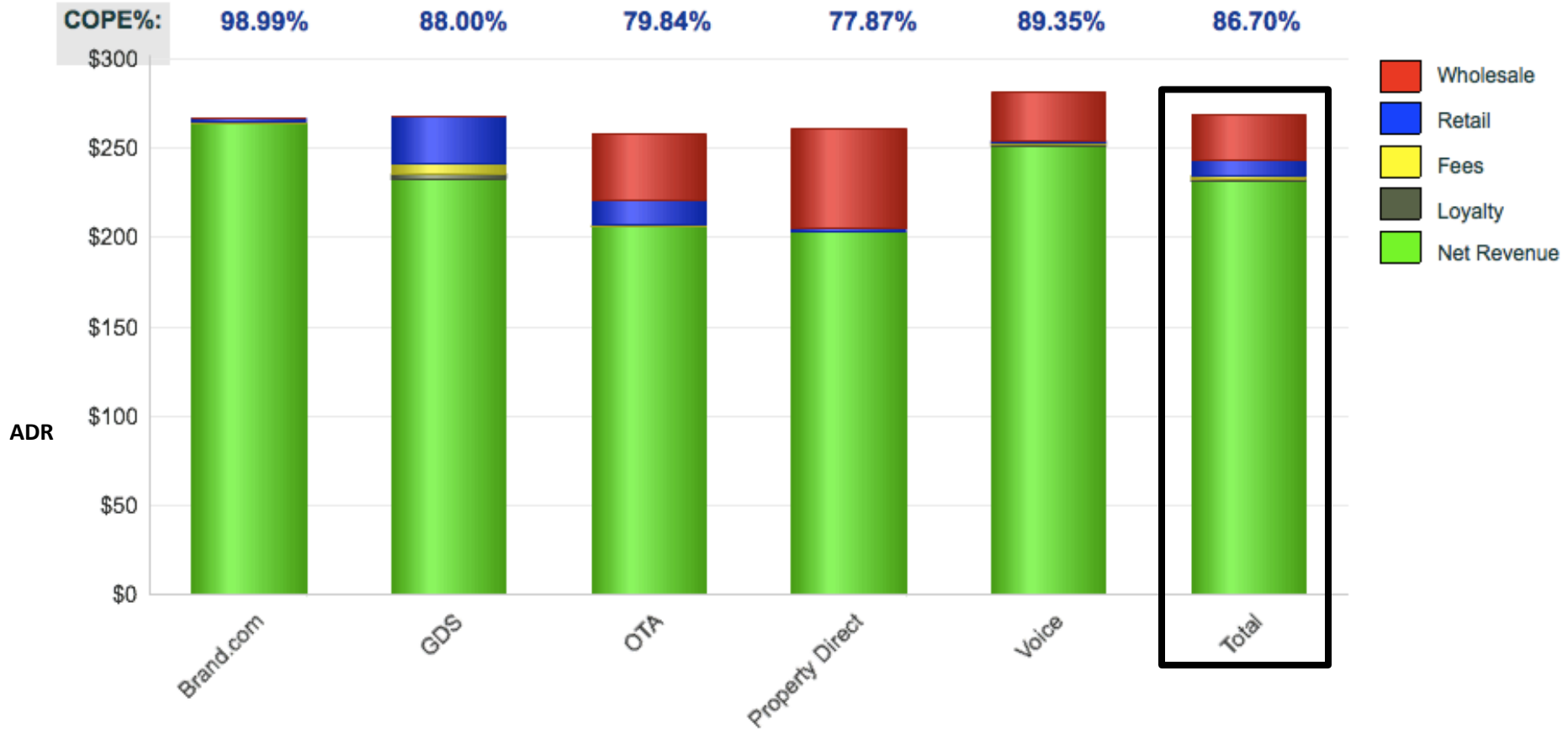


Net RevPAR = RevPAR - Acquisition Costs



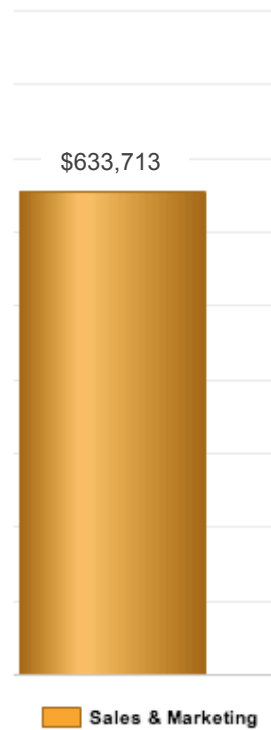
Contribution by Channel (COPE%)

Contribution to Operating Expense and Profit



COPE % = (Gross Revenue – Commissions and Transaction Fees)

Customer Acquisition Costs by Category

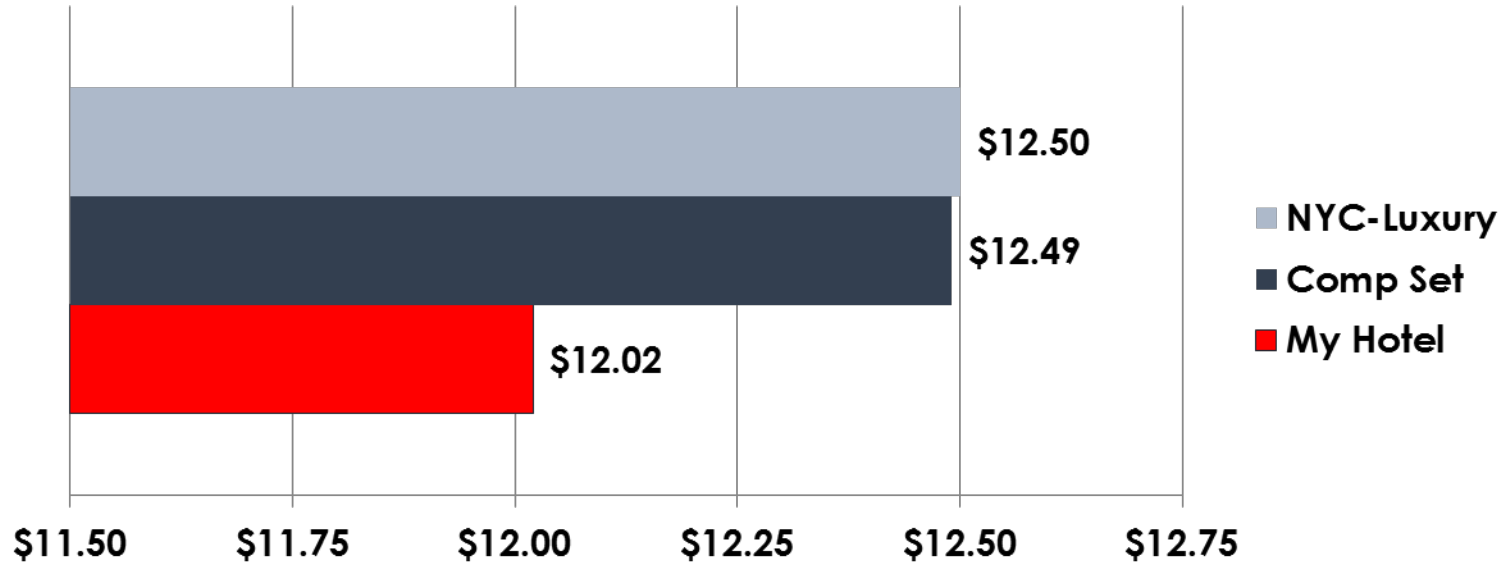


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Smart Spending:

Sales & Marketing Efficiency

How much net revenue for every \$1 spent on Sales & Mktg?



$$\text{S\&M Efficiency} = \frac{(\text{Revenue} - \text{Commissions \& Transaction Fees})}{\text{Sales \& Marketing Expenses}}$$



What it's not...

...its not about avoiding 3rd party marketers. They are a fact of life in the new marketplace.

What it is...

It's about gaining *leverage* in using 3rd parties.

It's about creating business acquisition strategies that deliver sustainable profit for hotels.

Social Media

- Owned content – Organization out
- Paid content – Organization out
- Earned Content – Customer in



Why Social Media Is Important

- Today's social world is here to stay
 - Smart phone use skyrocketing
 - Comfort with social sites growing
 - Customer feedback largely ignored
 - Customer feedback spreads like wildfire
 - Loyalty programs future in question



State of Hospitality Industry - 2014

- Most Hotels – 53,250
- Most Rooms Available Daily – 4,950,000
- Most Rooms Sold Daily – 3,250,000
- Highest ADR - \$115
- Highest RevPAR - \$76

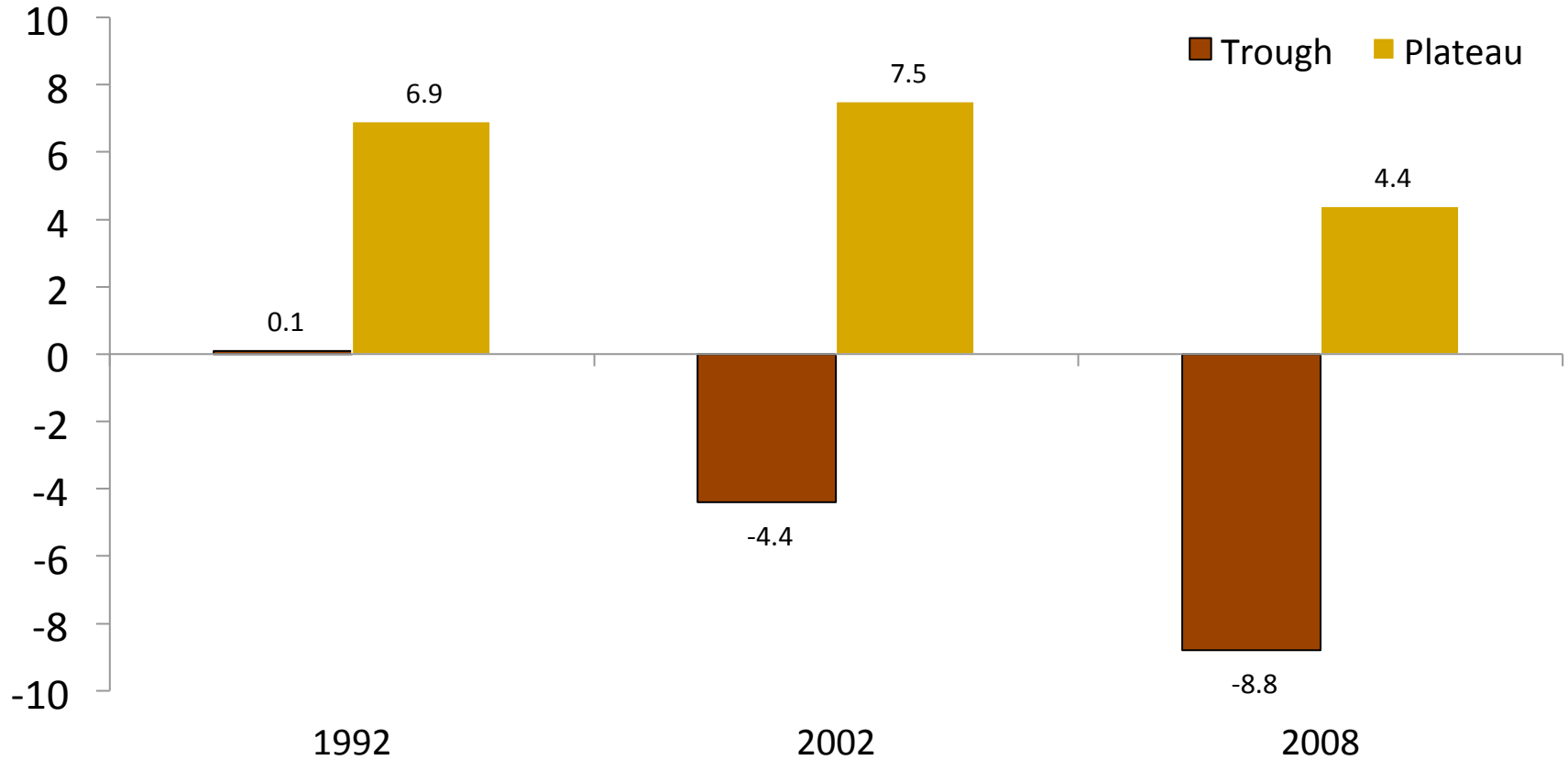


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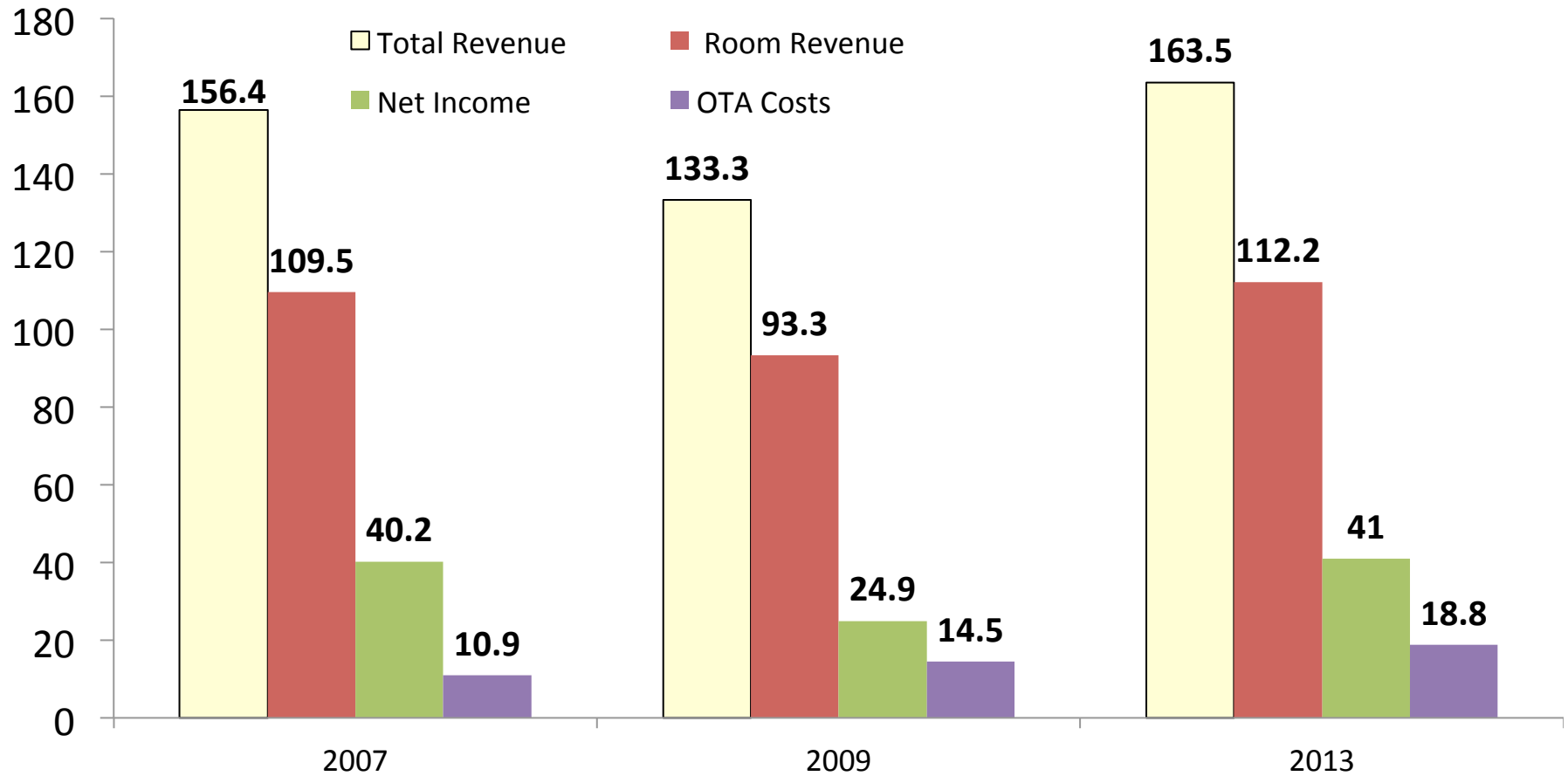
ADR Recovery From Downturn Trough vs. Plateau



Source: STR

Revenue, Net Income & OTA Acquisition Costs (\$B)

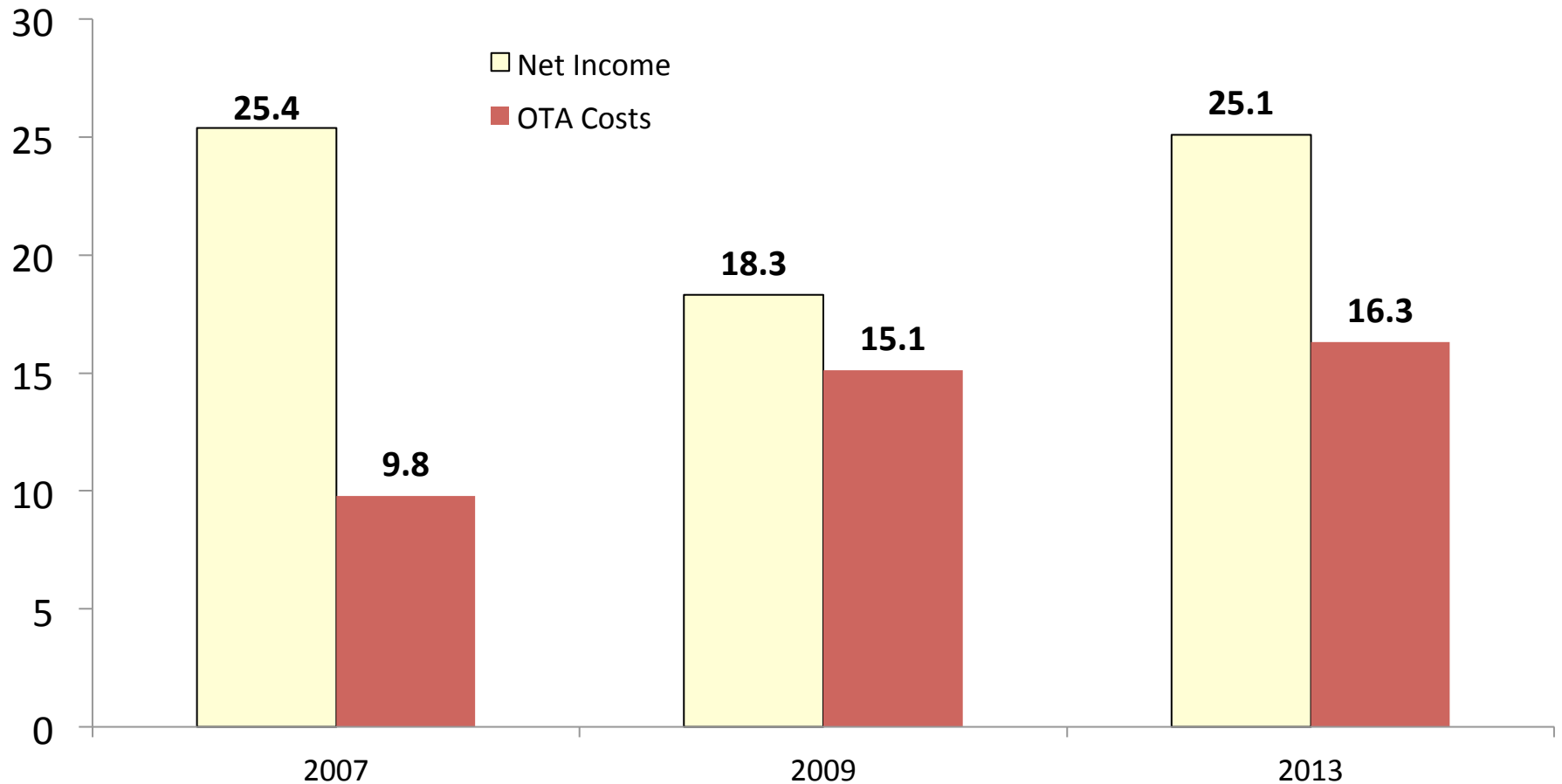
2007, 2009 & 2013 (\$B)



Source: Kalibri Labs & STR

Net Income & OTA Acquisition Costs

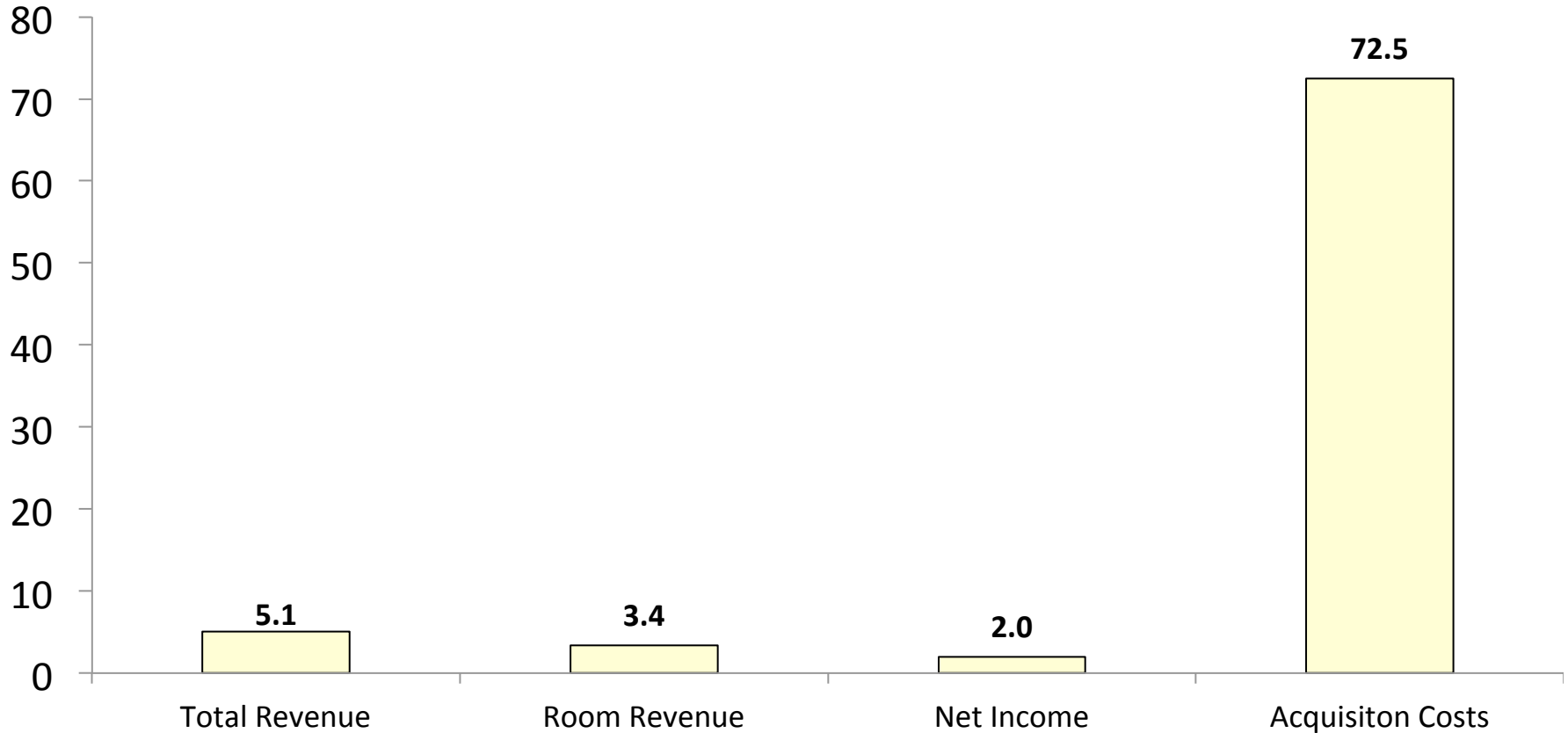
Percent of Revenue – 2007, 2009 & 2013



- *Net Income as a percentage of total revenue, Acquisition Costs as a percentage of room revenue*

Percent Growth in Key Measures

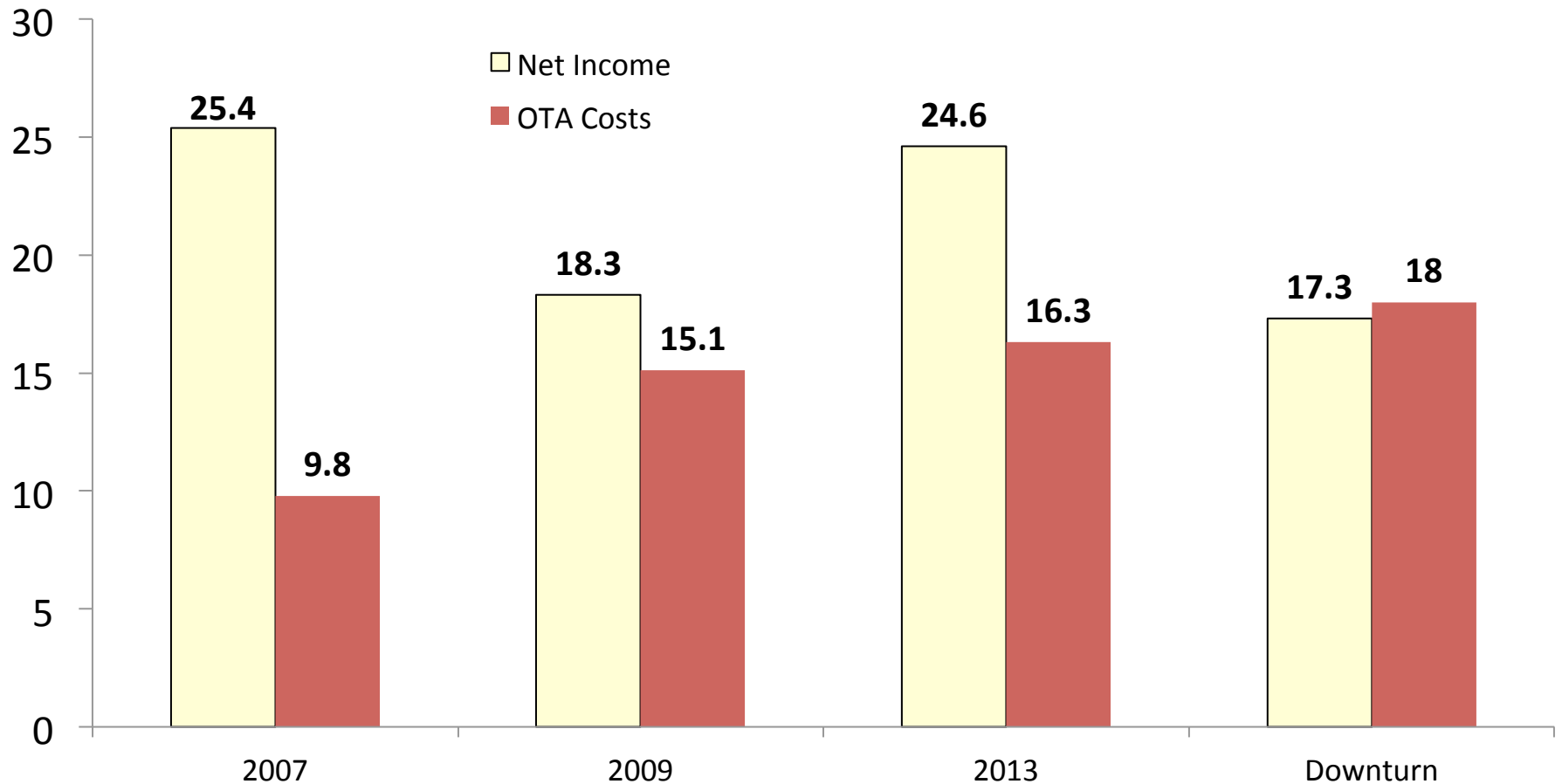
2009 - 2013



Source: Kalibri Labs & STR

Net Income & OTA Acquisition Costs

Percent of Revenue – 2007, 2009, 2013 and Downturn



- *Net Income as a percentage of total revenue, Acquisition Costs as a percentage of room revenue*

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Conclusions

- Industry is changing rapidly
- Technology and innovation around acquiring the guest is all happening outside the hotels
- The cost of acquiring the customer is growing considerably faster than room revenue
- The hotel industry needs more comprehensive performance metrics

Question > Limitations > Research Findings > **Conclusions**



About Kalibri Labs

- Founded in 2012
- Inspired by findings that emerged from the *Distribution Channel Analysis*



Helping hotels find their **optimal channel mix** and create customer acquisition strategies that **deliver sustainable profits**

/'kalə,bri/ from the Latin for hummingbird (colibri)

Looking back, moving forward...

to Calibrate - compare against a standard & refine through data

the Greek goddess Libra - representing balance & truth

Lab - a virtual "think tank" to research & innovate

- Analyzing 2B transactions annually
- Data from 70+ brands worldwide

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