

What Lawyers & Operators Need to Know About Hotel Operations

- Part 1 - A discussion of operational aspects of hotels including systems for reservations and revenue management, OTA relationships, brand standards and how these items can relate back to the terms mentioned in the license agreements for branded hotels.
- Part 2 - This session will cover hot button legal issues addressed on a daily basis by state hotel associations, such as application of hotel tax, premises liability, handling holdover guests, theft claims, and various employment issues.

What Lawyers & Operators Need to Know About Hotel Operations Part I

Whose Guest is it anyway??

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What Lawyers & Operators Need to Know About Hotel Operations, Part I

- Reservation Systems
- Yield Management Systems
- Traditional Travel Agencies
- Wholesalers
- Online Travel Agencies
- Brands/Brand Standards

Hotel Inventory

- Hotel rooms are sold by type, length of stay and with/without restrictions
- Perishable
- Kept track in a variety of reservation systems
- Can be sold to walk-ins, groups, corporate discounts by the hotel itself
- Can be sold through a variety of distribution systems and sold by others

Reservation Systems

- Can be manual (think small B&B or restaurant)
- Can be one-way (inventory manually updated in a computer database that is connected to a chain or other reservation system)

Reservation Systems (cont.)

- Can be two-way (automatically updates inventory in reservation system based on reservation, cancellation, check-in and check-out activity)
- A hotel can have a mixture of all three depending on who is allowed to sell rooms for them

Yield Management Systems

- Piggybacks on the reservation system or inventory status
- Can be part of a chain affiliation or a subscription to a 3rd party service
- Analyzes trends in reservation booking patterns based on past history (prior year, last “x” weeks, group pick-up, etc.)

Yield Management Systems (cont.)

- Typically biases toward greater length of stay or higher rates when the algorithms indicate sufficient demand to be more selective in which reservations to accept
- Determines when rate types without “last room available” status can be booked

Traditional Travel Agencies

(American Express, Carlson Wagon-Lit)

- TA systems are interfaced with various chains and 3rd party reservation systems to access hotel inventories
- May have pre-negotiated discounts for their own business or book a client's discount
- May or may not have last room availability
- Typically receive a 10% commission

Wholesalers

(Apple Vacations, Delta Vacations, etc.)

- Pre-negotiated net rates
- Allocation of rooms given with cut-off dates that return rooms to general inventory
- Generally would bundle in with transportation or tours to keep the pricing “opaque”
- Historically would advertise through brochures and sales agents rather than sell direct to consumer

Online Travel Agencies

(Expedia, Travelocity, Priceline, Hotels.com)

- Hybrid versions combining aspects of traditional travel agents, wholesalers and branded websites
- Opaque (Priceline, Hotwire) sell brand shielded until purchase complete off of a net rate marked up
- Transparent sales to consumers can be for commission or marked-up net rates

Online Travel Agencies (cont.)

- Each has a sales force that will try to encourage price wars between local competitors
- Focus mainly in higher demand markets
- Want multi-year agreements to lock in inventory and terms
- Want last room availability in order to have highest opportunity to sell during peak times

Online Travel Agencies (cont.)

- Have larger margins on sales than chains or individual hotels due to low overheads
- Can have larger marketing budgets than chains at times
- Want to be a one stop shop for the consumer by offering broad inventory choices (even in high demand times) and discounted rates

Brands/Brand Standards

- Chains have proprietary reservation systems to represent member hotels
- Hotels are typically obligated to use the reservation and yield management system exclusively by their license agreement
- Chains want lowest available rates available on the branded websites to keep transaction and commission expenses minimized

Brands/Brand Standards (cont.)

- Chains want consumers to become brand loyalists and minimize shopping between travel websites
- Chains and hotels want sales from 3rd party reservation services to be incremental
- License agreements contain the rights to negotiate travel agency agreements and distribution system agreements on behalf of the system

Part 1 Summary

- Yield management systems are built to close out discounts and higher cost distribution systems during times of higher demand to maximize revenue for the hotel & chain
- OTA's want greater control over inventory to have superior offers
- Both brands and OTA's want to have repeat bookers