



Spotlight on... Wholesalers

How do you solve a problem like Amoma?





Hotels and wholesalers: breaking point?

Before the internet turned the hotel industry on its head, wholesalers and bedbanks were the backbone of room distribution. Hotels sold their rooms to a wholesaler, who sold them to a travel agency, who sold them to the end customer. A markup at every stage meant every party profited.

We all know what happened next. The internet came along, online travel boomed, and hotel distribution systems didn't keep up. Suddenly, hotels were competing for bookings with their own rooms advertised at different prices across the web - and no longer had a full view of exactly which bookings were coming from where.

Despite being contractually obliged to sell rooms only under the terms set out by the hotel, it's not uncommon to see wholesalers '**unbundling**' rates designed to be sold as part of tours or packages. These heavily discounted rates then find their way onto OTAs like Amoma, and a hotel room worth \$200 ends up being sold for \$120.

The overwhelming response from the hotel industry to the '**Amoma problem**' is one of frustration. Frustration that wholesalers break their contracts, frustration that it's hard to easily determine which wholesaler is unbundling rooms, and most of all, frustration that a negative cycle like this one has come to exist.

The hotel industry faces an uphill struggle against antiquated technologies and non-communicative systems. Wholesalers run on tech that was built for offline bookings, but can no longer make money without selling online. Static rates designed to be rolled into packages and sold by traditional travel agents are now being shipped out to a multitude of OTAs, with no oversight available to the hotels whose rooms they relate to.

In spite of these issues, most hotels continue to use wholesalers. Many aren't in a position to turn down a proven sales channel, which wholesalers irrefutably are. **But are they truly worth it?**



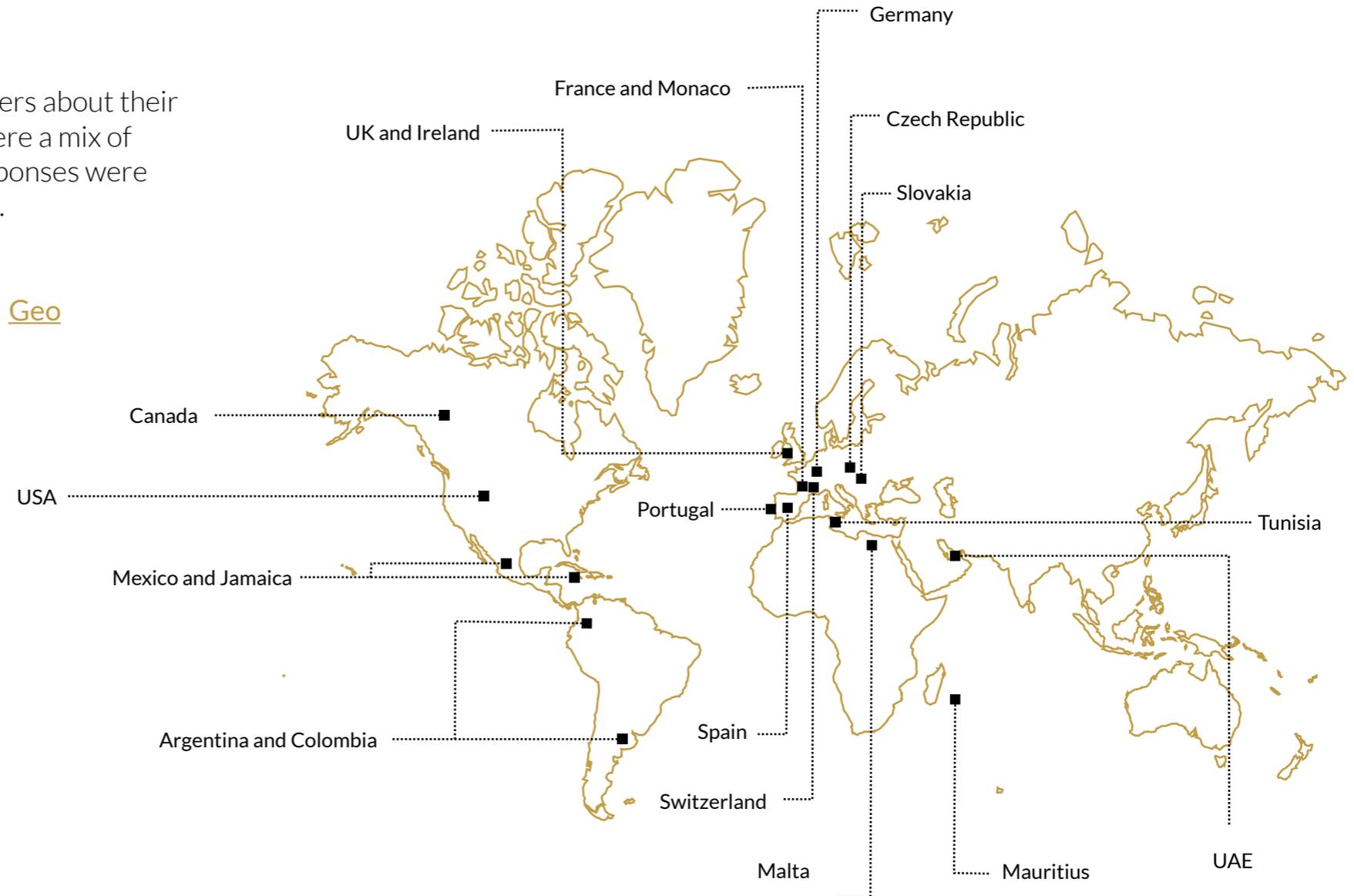
The Triptease survey

We surveyed a diverse group of 50 hoteliers about their attitudes to wholesalers. Respondents were a mix of Triptease clients and non-clients, and responses were collected over the month of August 2017.

Size

1-49 rooms	3 hotels
50-199 rooms	20 hotels
200-499 rooms	17 hotels
500-1999 rooms	3 hotels
2000+ rooms	7 hotels

Geo





Wholesalers: the hotelier's view

Of the 50 hotels we spoke to, only four do not currently contract with wholesalers. Of those, two had deliberately chosen to stop working with wholesalers on account of undercutting.

The discord that unpackaged wholesale rates can sow between hotels and their OTA partners is a major problem. For hotels attempting to maintain the upper hand (and moral high ground) in rate parity discussions with their partners, it's at the very least embarrassing when cheaper rates than they've given the OTAs surface elsewhere on the internet.

Only five of those surveyed had not come across the 'Amoma problem' prior to our survey.

"Undercutting OTAs hurts everyone. Market Managers contact us asking to lower our rates to match the rogue wholesale rates, and when we do, the wholesalers lower theirs again."

USA

200-499 rooms



When asked about their 'overall attitude' towards wholesalers, the hotels we spoke to differed fairly widely in their opinions.

Only one hotelier described their attitude as 'extremely positive', with just over half of respondents ranging from 'neutral' to 'positive'. A significant chunk of hoteliers placed themselves at the lower end of the opinion scale, with **20 out of 50** hoteliers scoring themselves at **four or below**.

Interestingly, the vast majority of our group described being undercut by wholesale rates as a problem for their hotel - far more than described themselves as having a 'negative attitude' towards the organisations.

Though our survey group is relatively small, this discrepancy points towards the bind that many hotels find themselves in - that is, feeling grateful for the work wholesalers do within their 'agreed' remit, whilst being aware of the harm they're doing with their less commendable practices.

"My overall attitude towards wholesalers is..."



"We do need their production during the winter months, and our company knows how important the wholesalers will be during a recession - so we choose to maintain the relationship."

Canada

500-1999 rooms

Describes being undercut by wholesale rates as a 'huge problem'



Wholesalers might want to sit up and pay attention to the next part. **Thirty-seven of the 50** hoteliers we spoke to said that they would be prepared to completely cut off all of their wholesale business if the 'Amoma problem' got bad enough. We asked them why.

"Rate parity is critical in the process of creating the best customer digital experience. We simply need to offer it, no matter how, and if that means cutting contracts with historical partners because they can't control their distribution, then hoteliers will have to control it themselves." *Monaco, 50-199 rooms*

"There are very few tour operators and wholesalers that have a unique customer audience and provide value. Most of the wholesalers buy from each other and sell to each other. In addition to that, the trade-down on wholesale business is larger than most of the hotels think it is." *Global, 2000+ rooms*

"To protect our business. If Amoma had any "balls" or business ethics they would contract directly with hotels and secure a fair price and deal. They are significant and underhand operators who have no integrity and would likely sell for a minimal margin just to make a sale." *Scotland, 1-49 rooms*

"Continued tolerance is allowing them to cheat and win a game in which we should set the rules." *US, 200-499 rooms*

"By investing in marketing, I believe any hotel can sell only through B2C operators. It has its cost, but I believe it's a more reliable strategy regarding client loyalty. Guests book your brand rather than just the best price in a list." *Portugal, 200-499 rooms*



The fact remains, though, that most hotels have not reached the point of cutting off contracts entirely. We asked hotels what their current solutions are for when wholesalers start acting up.

Book and complain

“We book a test reservation and send it to the wholesaler, with a request to close out the problem company.” *US, 50-199 rooms*

“We try to book and catch them at it, but it is time-consuming and a pain.” *US, 200-499 rooms*

“We create a fake booking to see which wholesaler is bringing in the booking, and then we deal with them.” *Mauritius, 500-1999 rooms*

“I book a room, check the wholesaler, then contact my account manager.”
Ireland, 500-1999 rooms

Warn and terminate

“I contact the company personally, demand that they stop, and in the worst case, I cut them off.” *Germany, 2000+ rooms*

“Generally it’s three strikes and out. We send two warning emails and then send a suspension notice.” *USA, 200-499 rooms*

“I advise the wholesaler of rate parity agreements, and ask them to discontinue. If they fail to respond or fix the problem, we terminate the contract.” *USA, 200-499 rooms*

“We put the company on a 21-30 day cut-off for that hotel. If we see the problem happening 3 times in a row, we close inventory completely to that company.” *USA, 2000+ rooms*

Zero tolerance

“Immediate disconnection.” *UK, 1-49 rooms*

“Cancel contract.” *Ireland, 200-499 rooms*

“Cancel contracts and shut off inventory.”
UK, 2000+ rooms

“Cancel the contract.” *USA, 200-499 rooms*

“Cease partnering.” *USA, 50-199 rooms*

“We issue broad stop sells (entire months) as punishment.” *USA, 200-499 rooms*

“We move them to dynamic only, and terminate the static contract.” *Monaco, 50-199 rooms*



Of the 50 hoteliers we spoke to, 21 said that they cancelled contracts with wholesalers who misbehaved. Some adapt their response depending on their current situation - a mid-size hotel from Portugal, for example, cuts its availability on wholesalers on high-demand days, but offers discounts on B2C sites and brand.com on low-demand days.

Encouragingly, more people than we anticipated said that they would know how to identify the wholesaler at fault when they came across a rogue rate. Part of the issue historically has been the inability to track where these rogue rates originate from. The process of identification is lengthy, frustrating, and for most hoteliers, a waste of valuable time.

In order to identify which wholesaler has broken the terms of their contract, a hotel has to book a wholesale rate (when they spot it) on the site they find it on, then check their system to see which wholesale/FIT partner supplied the booking. They then have to contact that company with the evidence, by which point they've wasted (a) money (on the test booking) and (b) time.

Many of the hotels we spoke to are having to do this on a regular basis.

“If I had to, I would know how to identify which wholesaler was unbundling my rates and selling them on to OTAs.”

39 AGREE

5 DISAGREE

6 NOT SURE



A storm brewing

While the current situation has many hoteliers at the end of their tether, it could potentially be about to get a lot worse.

CTrip's hold on the Chinese travel market is unrivalled, and with **57%*** of global ecommerce sales set to take place in China by 2019, hoteliers worldwide would do well to start thinking about how they're represented on the platform.

Whereas Booking.com and Expedia operate by contracting directly with hotels in order to display room rates, CTrip operates on a basis similar to Amazon, managing an online marketplace where consumers can shop from third-party vendors. Alongside directly-contracted hotels, the site lists rates from other OTAs, agencies - and wholesalers.

Though these rates are provided by third parties, the customer has no visibility over who they're booking with at the point of purchase. The actual vendor is only listed in the fine print of the booking confirmation sent after the fact - where it would read, for example, 'booking purchased through CTrip via Amoma.'

So, while today's hoteliers are working to maintain parity with their partner OTAs, the hoteliers of five years' time will be faced with the task of attracting a high-value Chinese market whilst being voraciously undercut by wholesale rates on China's biggest travel website.

The anticipated growth of Chinese travel spend lends an added urgency to the need to solve the 'Amoma problem,' but it's not just China that hotels need to worry about. The growing popularity of metasearch is a concern as long as the wholesale problem persists: there's nothing to stop Amoma listing unbundled rates on, for example, Google Hotel Ads.



* eMarketer.com



“Why don’t they control (via contract) their ‘resellers’?”

Your questions answered

“Why do wholesalers not stick to their core model?”

“Why do wholesalers not enhance their technology to allow dynamic pricing via the major CRS platforms?”

When investigating the thorny wholesaler issue with hotels, one thing became clear: hoteliers are frustrated by the lack of transparency on the part of their wholesale partners. Contracts are signed in good faith for one purpose - that is, to market rooms to travel agents, tour operators, and the like - and then broken as wholesalers instead sell rooms on to customer-facing websites.

“Do wholesalers really have access to special airfares?”

It’s a business model that, from the outside, seems unsustainable. So why is it happening?

“How do wholesalers see their business model enduring when their technology is antiquated, and their ethics are suspect at best?”

We asked every hotel we surveyed to give us one question that they wished they could ask a wholesaler. We then put these to a **senior travel technology and distribution professional** with a wealth of wholesale experience. Both our hoteliers’ questions, and his answers, have been anonymised.

“Why do they feel it is acceptable to adjust the sell rate of rooms that do not belong to them?”

“Simply, how are they still operating? Where is the money for them?”

“How can we, hotels and wholesalers, resolve this problem together?”

“What is the best way to catch my wholesale partners selling unpackaged prices?”



Q. “Why do wholesalers not stick to their core model?”

US, 50-199 rooms

A. “Offline and packaged travel sales are reducing worldwide, but particularly in Europe and the US. Wholesalers see selling to OTAs as their growth business now.”

Q. “Simply, how are they still operating? Where is the money for them?”

Czech Republic, 50-199 rooms

A. “The money for them is in the margin. Their negotiated net or net after discount allows them to mark up and create a healthy margin.”



Q. “Why do wholesalers not control their resellers (via contract)?

US, 2000+ rooms

A. “It’s not their prerogative to control distribution downstream, which is why there’s such a big distribution problem in this sector. It’s also a challenge from a legal perspective to control downstream resale pricing, even if wholesalers wanted to ensure their resellers did not undercut Brand.com.

They also work on a model that marks up their buying rate from a hotel. The wholesaler’s entire value proposition is arguably their resale price, which allows the receiver of this hotel room to add their mark-up and undercut the hotel’s pricing.”



Q. “Why do wholesalers not enhance their technology to allow dynamic pricing via the major CRS platforms?”

US, 200-499 rooms

A. “This is a very valid question. The major wholesalers and some of the second tier have all moved to dynamic inventory already, but the majority of their revenue still derives from static negotiated rates. However most, if not all, take this dynamic inventory on a net merchant basis (they receive a net rate after discount). They typically price this net rate at their sole discretion.

Their motives for taking this inventory do not include a desire to price responsibly utilising their ability to price recognising BAR. Instead, the main motive is essentially to get more access to inventory when their allocation of negotiated rates is sold out, or allocations are released.

Hotels should absolutely take a stand to move to dynamic-only rates with wholesalers. Wholesalers will argue that technically it is a challenge for them and their clients, but moving to dynamic only rates will reduce disparity and put the hotel back in control.

A hotel can always switch a rogue player off.”



Q. “Why do wholesalers feel it is acceptable to adjust the sell rate of rooms that do not belong to them?”

UK, 200-499 rooms

A. “They source the rates net, and typically are not contracted to price this inventory back to BAR. Most hotels expect them to package, and contracts suggest this, but wholesalers do not package their hotel inventory with significant travel components such as a flight, or car, at their point of sale.”

Q. “Do wholesalers really have access to special airfares?”

Mexico & Jamaica, 2000+ rooms

A. “Typically wholesalers only work with hotels and services, like sightseeing and transfers. With airlines, there is very little fat to play with!”



Q. “How do wholesalers see their business model enduring when their technology is antiquated, and their ethics are suspect at best?”

US, 200-499 rooms

A. “The fact that there is increased consolidation in this space shows that the segment is changing. The question is, how much relevance can the large players retain when their distribution value has a general question mark over it.

These large players believe they provide an alternative to the biggest OTAs, but they might need to address their pricing - and be more transparent about their business model - before believing it will endure the test of time.”



Q. “How can we, hotels and wholesalers, resolve this problem together?”
US, 50-199 rooms

A. “I think that zero tolerance for irresponsible distribution of a hotel’s inventory is the only way to resolve this.

Hotels also need to have an idea of whether the wholesaler actually does bring them business from markets they can’t reach themselves. If the wholesaler is supplying OTAs, then the hotel can arguably reach the same customer via their own website, or via their own contracts with OTAs.”



So, what do we do about it?

It's clear that the hotel - wholesaler relationship is in a pretty dysfunctional state. As far as we can tell, it's not only in hotels' interests to fix the problem - it's in wholesalers' too. Wholesalers are currently building into their business model the assumption that they'll sell a certain amount of their inventory on B2C websites. If it reaches the point that all hotels do decide to take a stand and switch off their wholesale channel, or are able to prohibit 'unpackaging' in their contracts, wholesalers will be stranded.

There seem to be three tangible ways to respond to the problem.

1. Continue with the rate shopping -> test booking -> complain to partner cycle.

The more hotels demonstrate that they won't accept these breaches of contract, the more wholesalers will have to consider whether it's worth the risk to continue unpackaging rates. The hotel industry has traditionally always been dependent on wholesale for a certain portion of their business. But if wholesale rates are increasingly just ending up on OTAs, there's no reason why hotels can't reach the same audience themselves.

2. Shut off wholesale contracts entirely.

Our survey results show that several hotels are taking a more decisive stand and cutting contracts completely. It won't be feasible for all hotels, but it is worth considering whether your wholesale partnerships are entirely worth the trouble they're causing. Evaluating a true ROI against the money and time spent dealing with contract violations is key to deciding whether this is the solution for your hotel.

We've heard of several hotels putting themselves back in the driving seat with wholesalers by establishing a clear 'one strike and you're out' policy. This involves cutting their current list of, say, seven partners down to three - and then making it very plain to those three that they can be swapped out at any time. If the hotel catches a partner offending, they immediately cut off distribution with them and bring in another partner instead.

While effective, this method is still antagonistic. The air of threat may overshadow a positive working relationship. To cultivate a more positive and sustainable system, the wholesale industry could instead turn to **solution number 3** - full-scale adoption of dynamic pricing.



Dynamic pricing contracts

Several hoteliers we spoke to pointed to dynamic pricing as their ideal solution to the 'Amoma problem'. We asked revenue management maestros Duetto for their view.

VIEWPOINT

Marco Benvenuti

Co-founder, CMO and Strategy Officer at Duetto

“Over the past decade, hotels have been able to successfully move most of their rate structures into a dynamic environment, where prices fluctuate based on supply and demand. Dynamic rates allow industries with perishable inventory to guarantee availability and better maximise profitability.

The lone holdouts had been wholesale contracts and corporate negotiated rates, but now even those channels are accepting of more dynamic rate strategies. One example is a recent partnership between Hotelbeds, which calls itself 'the world's leading bed bank,' and AccorHotels - a partnership that wouldn't have come to fruition without Hotelbeds' ability to receive dynamic rates.

Another benefit of dynamic wholesale rates is that they decrease the possibility of an expired, out-of-parity rate floating around on the internet. Wholesalers knocking your hotel out of rate parity should become less of an issue.

The move does require wholesalers to accept regular rate changes from a hotel's property management system or central reservation system rather than through an extranet, but thankfully technology advances have made this easy and less costly than previously.

By negotiating a dynamic rate, you can continue to take advantage of the demand that wholesalers provide, but now at the right price. Just like any other segment, flexing your rates allows you to maximise profitability and keep rooms available for those consumers who really want to stay at your hotel.”



Looking forward

The wholesaler situation clearly cannot continue sustainably in its current arrangement. Whether change will be driven by hotels or wholesalers themselves is up for debate, but there's no denying that it needs to come.

**DIRECT BOOKING
SUMMIT**

Join Triptease at the Direct Booking Summit 2017, where we'll be bringing hoteliers together to talk parity, guest engagement, wholesalers, metasearch, and more.

Just search 'Direct Booking Summit', or email hq@directbookingsummit.com for more information.

With thanks to Duetto for its contribution.



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How do you solve a problem like Amoma?

