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REACH, GROWTH, AND OCCUPANCY

THE REAL VALUE OF THE BEDBANK DISTRIBUTION MODEL

In partnership with

hotelbeds

Written by

Robert Cole at PhocusWire

About this report

Reach, growth, and occupancy: the real value of the bedbank distribution model

A PhocusWire Report in partnership with Hotelbeds

Author: Robert Cole at PhocusWire

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Bedbanks play a unique role in the travel industry

There are few true two-sided B2B marketplaces in travel that fully engage buyers and sellers, often pairing sources of supply and demand that would otherwise have no awareness of, or access to, one another. Bedbanks fill that void.

There are countless methods available to consumers seeking accommodation. If they are familiar with a specific brand or property, they may choose to book directly.

However, for those traveling to an unfamiliar destination, booking multiple destinations or a package, it's likely that somewhere in the process, a travel seller will be used.

For example, a traditional agent may offer expertise regarding a destination; online travel agents aim to offer a wide breadth of product; an airline or tour operator may bundle packages; or a credit card company may fulfill a reward. The challenge for these travel sellers is how to

connect with, contract and transact with accommodation providers worldwide.

Beyond "brand.com" booking channels, a considerable portion of the travel seller universe relies on a marketplace that becomes their catalog of product – the bedbank.

That same bedbank simultaneously assists hoteliers by extending their distribution to new sellers, in more markets, many beyond the scope of a hotel's sales and marketing strategy and resources.

An optimized bedbank satisfies many needs, but one of its most important roles is creating TRUST. The travel sellers rely on the bedbank to host a portfolio of qualified hotel inventory that is accurately described and fairly priced. Similarly, hotel suppliers rely on the bedbank to build relationships with dependable sellers that will effectively promote and merchandise their products.



How bedbanks create value

A bedbank creates value by impacting four fundamental pillars of business – Access, Profit, Quality and Service.

Access

Streamlining the availability and utility of essential content is necessary for efficient business operations.

- **Expand Reach**
Support a wider range of geographic markets and/or product types.
- **Easier Connectivity**
Reducing effort and time required to initially gain access to a system or content.
- **Simplify Processes**
Removing steps and/or complexity to make essential task completion easier.

Profit

Offering a fair or enhanced return in exchange for effort – producing greater benefit from lower risk.

- **Reduce Cost**
Lower the expense required to perform tasks.
- **Grow Revenue**
Increase sales volume or enable greater margin.
- **Conserve Capital**
Require fewer resources to efficiently operate.

Quality

Producing a higher quality product/service, while reducing the margin for error.

- **Increase Speed**
Faster performance with more frequent updates.
- **Improve Accuracy**
Correct data, reliably and precisely updated on time.
- **Better Organization / Greater Detail**
Enable more logical access to more information.

Service

Strong technology, a solid business model and quality content are important, but consistent customer-centric service delivery when things go wrong is the litmus test for satisfaction and retention.

- **Promote Convenience**
Make it easier for customers to work with an organization at every touch-point.
- **Enhance Operational Outcomes**
Eliminates points of failure, mitigates risk and anticipates customer needs.
- **Support Client&Partner Goals**
Understand customer evaluation criteria and performance benchmarks to exceed expectations.
- **End-User (Traveler) Assistance**
Assist customers experiencing travel and service disruptions by quickly identifying solutions.

How bedbanks work

Bedbanks are specialized B2B platforms that contract supply from partners and make it available to client travel seller organizations that aggregate travel demand from a variety of sources.

Unlike many distribution organizations that constrain technical and business innovation, successful bedbanks offer flexibility to maximize the number of partners (supply-side) and clients (demand side) by making it simple to contract and connect.

This process requires sophisticated internal business processes and technologies to offer solutions for a diverse marketplace, where each participant expects to utilize the common business practices employed within their region or market segment.

As a result, the bedbank business model creates a strong network effect, where the marketplace becomes more productive and efficient as it increases the number of supply partners and clients growing demand.

When properly executed, the combination of the B2B wholesale business processes and advanced technology connections offer a neutral global marketplace, designed for maximum benefit to both the hotel partners and travel seller clients.



A bedbank may support a variety of business models, such as:

Booking Transaction Model

- **Wholesale Merchant Model** – Where the hotel supplier provides a net rate, which is marked up by the travel seller, who serves as the merchant of record for the booking transaction.
- **Retail Commission Model** - Where the hotel supplier provides a gross rate, which is sold on a retail basis by the travel seller, who earns a commission from the bedbank who serves as the merchant of record for the booking transaction.

Settlement Methods

- **Pre-paid/ guarantees** – The bedbank takes inventory risk by pre-paying a hotel for a specified block of rooms.
- **Deposit Required** – The hotel requires a pre-defined partial payment in advance from the traveler.
- **Upon Guest Arrival** – The bedbank transmits payment in full to hotel prior to arrival.
- **Guest Paid** – The Traveler pays the hotel upon departure.
- **Post-Pay** – The hotel receives payment for the stay from the bedbank following checkout.



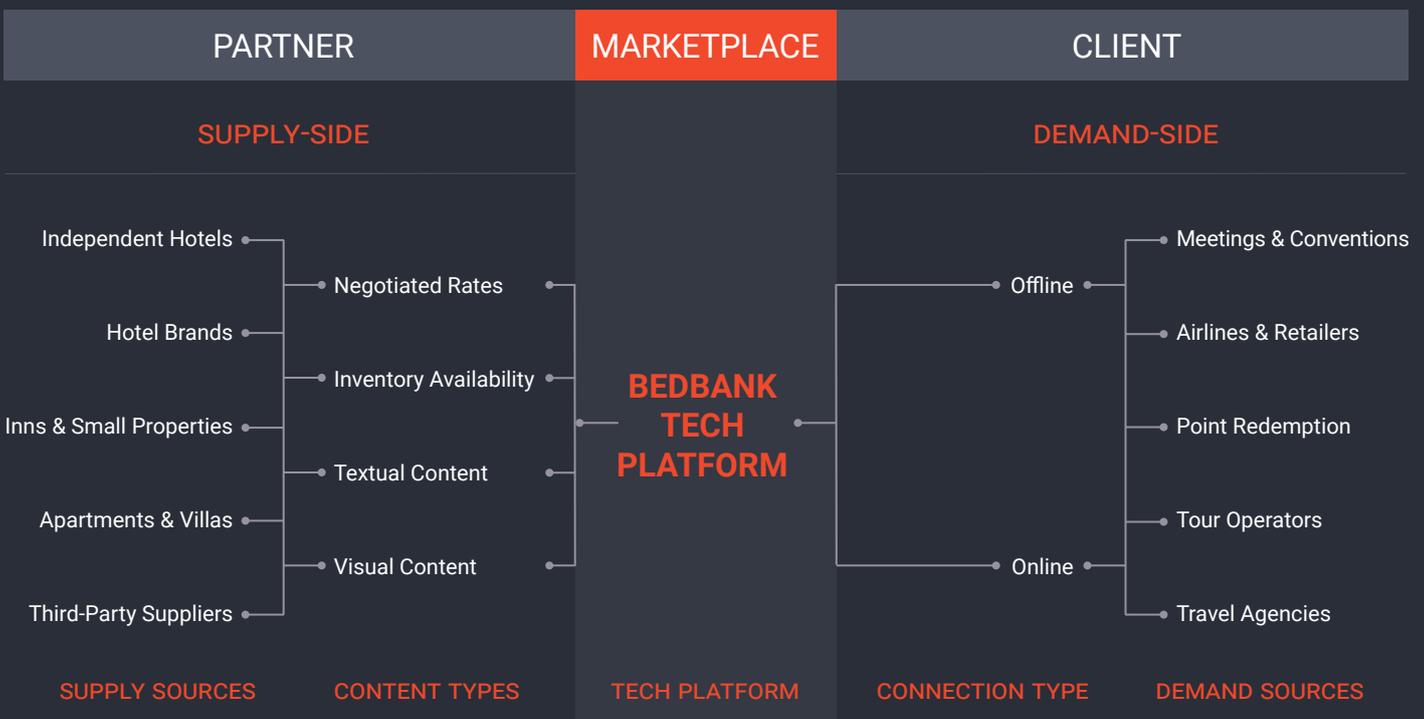
Regardless of the specific business model employed between the client and partner for a particular itinerary, in all cases, the bedbank is compensated as an intermediary for providing the marketing reach and technology to facilitate the booking transaction.

The bedbank also oversees the contracting process on both sides of the marketplace. All aspects of the relationship are defined, encompassing business model, room category availability, inventory allocations, negotiated pricing, payment terms and technical connectivity.

The business terms and conditions are also defined, in some cases, by the hotel, in others, by the seller.

The bedbank also provides customer service to support both hotel partners and travel seller clients as issues arise. While the hoteliers and travel sellers will normally handle traveler customer care needs, the bedbank may also intervene to resolve disputes between partners and clients.

The B2B bedbank marketplace/tech platform ecosystem encompasses many layers and tiered connections. However, in its simplest terms, it maps out as aggregating supply and content on the partner side, and demand via many partners on the client side.



Technology + travel experts – connecting the dots

The foundation of a bedbank is its technology– supported by a workforce of experts (both on the supply and demand sides) – to simplify operations, improve efficiency and promote commerce.

Hospitality distribution is highly complex, marked by proprietary technologies and interfaced via multi-layered solutions supporting functionality for all parties.

A bedbank manages a property's data, with information accessed via direct links with the hotel's own system, or manually updated by bedbank staff for those without the technology. On the demand side of the business, inventory may be distributed either to tour operators or travel agencies, or online travel agencies.

With travel sellers and hotel partners operating around the world, expectations are for accurate rates, availability, inventory and associated content be instantly available 24/7.

Sophisticated technologies are integrated across multiple data centers throughout the world to improve system response time.

In an age where machine learning and algorithms dominate many industries, the complex nature of travel currently requires resources beyond the capabilities of the most artificial intelligence platforms.

Joan Torrens

Commercial Director Europe, BlueBay Hotels

"The benefits of working with a bedbank are many. First and foremost, it allows us to reach a greater variety of markets and to maximize our distribution. Especially for the speed, agility and resolution capacity regarding an activation of a special offer or promotion. Moreover, it allows direct and exclusive contact with Key Account Managers, who can guide us when it comes to pricing and availability of the local area or market depending on our needs – both to lower or raise the price regarding the demand at that moment and the closest competitors."

"Additionally, they offer easy ways to promote our products with marketing campaigns in order to enhance our products. It is also worth mentioning the ability to gain deposits quickly, depending on the financial need of the moment."

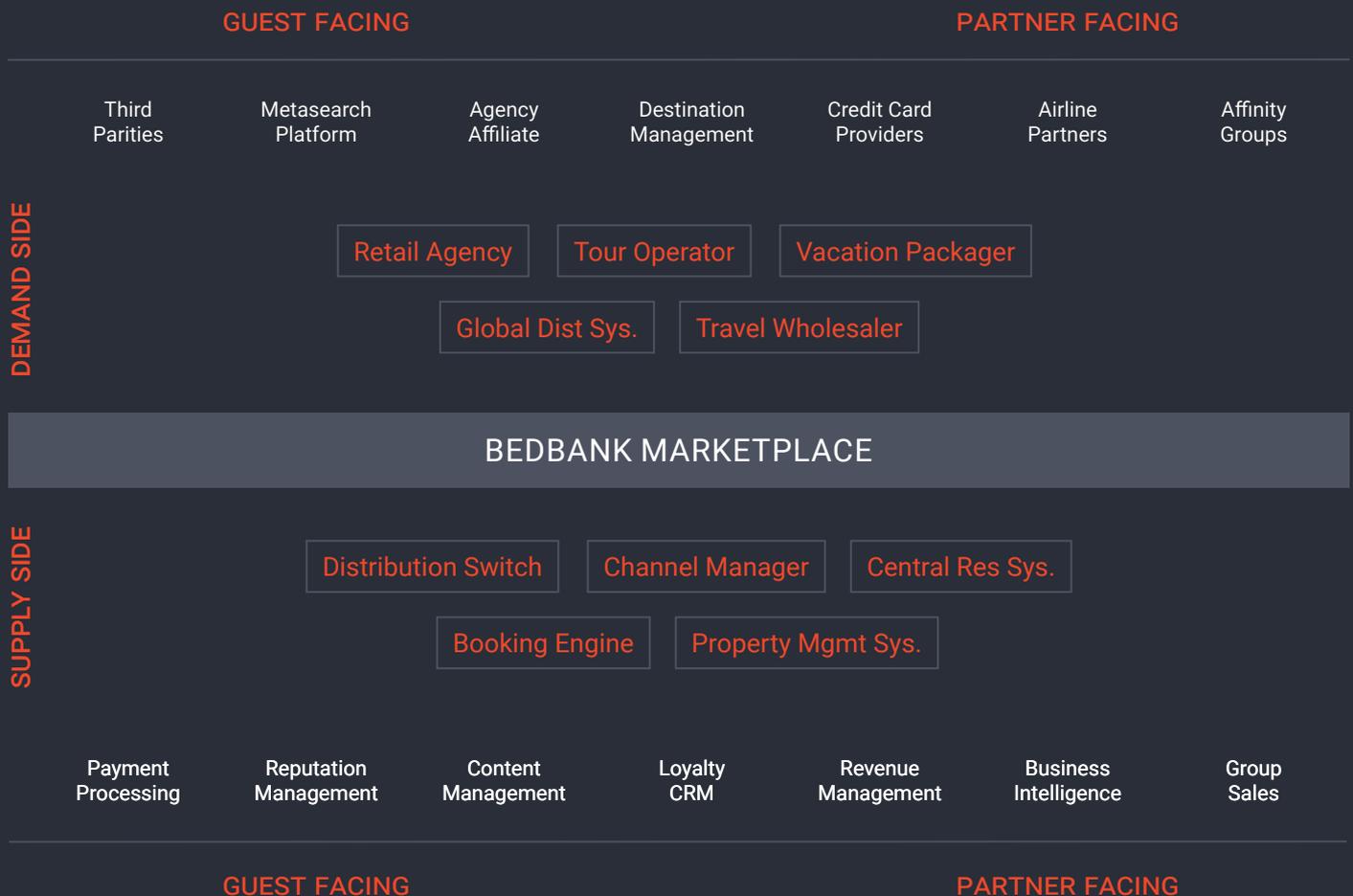
"Easy integrations via Channel Managers, which greatly speeds up the workload, are a benefit too; and the automatic downloading of reservations directly into our PMS is beneficial too as we avoid human error when introducing bookings. Last but not least, the power of distribution and being able to reach any corner of the world is for us essential and necessary no matter the season: high, low or medium."

Textual descriptions are adapted to support local languages and customs. While computer-based translation is improving, it is not sufficient. Local bedbank staff review updates to ensure translations are high quality and relevant for each regional market. As the bedbank shares a vested interest in making the content as relevant as possible, this service is commonly provided free of charge to contracted properties.

Financial processes must also go far beyond simple foreign exchange to support localized markets. Reliable

payment processing must address travel seller to hotel property settlement, and/or hotel property to travel seller commission remits. Appropriate taxes and fees must be assessed for each respective jurisdiction. Every market requires different solutions to operate efficiently – credit scoring, deposit handling, installment payments or preferences to transact across the spectrum of cash-only to a digital currency must be considered and transformed into a systematic business process.

The technology ecosystem of bedbanks





How bedbanks differ from online travel agencies

Prior to the emergence of OTAs, B2B distribution featured hotels offering net, negotiated rates to traditional wholesalers and/or tour operators, who, in turn, shared the markup on the booking with an agent. Since the rise of OTAs, merchant model OTAs vertically integrated the wholesale and retail aspects of the distribution value chain and sold directly to consumers.

Hotel brands promoting their own direct distribution channels compete with OTAs for B2C transactions, often with considerable overlap in solicitation of leisure customers. This overlap is a challenge for hotels, effectively resulting in cannibalization, as it results in duplicated marketing effort, increased advertising rates and other inefficiencies.

Bedbanks are not designed to compete with hotel direct booking initiatives and are instead focused on assisting

hoteliers develop under-served markets and those they do not contract with directly. In most cases, these relationships produce incremental bookings, over and above the hotels direct distribution efforts, often from high-yield markets, as opposed to competing to shift the booking channel. Travel sellers utilizing bedbanks also represent closed groups that may not be otherwise available to hotelgroups or properties through direct means.

As OTAs sell directly to consumers, they also compete with most other travel sellers. Perhaps most importantly, bedbanks do not try to “own” the guest relationship, they focus on serving the needs of partners and clients to help achieve their goals by promoting a neutral marketplace.

Bedbanks represent high-value customers within the hotel distribution pie

Hotelier marketing plans should always seek to source the highest value customers through channels at the lowest possible cost. For many, local and repeat business is often available through direct channels. A key value proposition of a hotel brand is to expand its market and to receive referrals from sister properties.

However, even the most sophisticated property-level marketers and global brands are not able to fill every room. Each property is different, yet each encounters a point of diminishing returns – especially when traditional sources provide insufficient business, fail to fill need periods or maximize occupancy/ADR during peak periods.

Due to their business mix and aggregation of niche travelers from closed group affiliations, most bedbank-sourced travelers, from a global perspective, exhibit the following characteristics:

- Originate from international markets
- Longer average booking lead-time
- Longer average length-of-stay
- Lower net cancellation rates
- Higher in-destination spend



Pippa Williamson

Senior VP Sales - Shangri-La Hotels & Resorts

"All hotel chains of course pursue a greater share of direct business however it is impossible to capture all customers in all source markets directly."

"Strategic partnerships with intermediaries that have the capability and appetite to reach these customers while not fragmenting other markets creates value."

"Bedbanks can also address the long tail of accounts who do not have the capability to take dynamic rates and payment solutions."

How bedbanks and hoteliers Can Promote Rate Integrity

Business marketplaces operate most efficiently when the incentives are aligned across all participants. When intermediaries are involved between the consumer and ultimate service provider, opportunities for misbehavior inevitably arise. To protect the foundational trust underlying every successful marketplace, clearly defined policies must be transparently communicated and uniformly enforced by all parties.

Hoteliers must retain control over their retail pricing structures and travel sellers must stand behind retail pricing assurances for each to ensure appropriate competitive positioning and operational profitability. Rate integrity is a foundational requirement for a successful bedbank marketplace.

What bedbanks Can Do

- **Establish/Enforce Strict Rate Integrity Policies**
Contractual terms explicitly stating expectations and penalties are essential. Understanding that legitimate mistakes may occasionally occur, a “three strike” notification-warning-termination escalation processes frequently employed.
- **Technology Investment**
Advanced technology and oversight resource investments are necessary pro-actively identify issues before they can negatively impact the marketplace. Metrics to benchmark compliance and ensure continual improvement are necessary to prevent bad actors from becoming more sophisticated in their efforts to avoid detection.

- **Forgo Revenue Sourced from Bad Actors**

Arguably the most effective method to avoid rate integrity issues is to simply terminate relationships with bad actors. Unethical management and/or boards may steer an organization down the wrong path, undermining the viability of the marketplace as a whole. For example, a major bedbank recently terminated relationships with offenders that resulted in a €250 Million reduction in annual sales volume – a difficult, but essential long-term business decision.

What hoteliers Can Do

- **Clear Contractual Terms and Ramifications**
In many cases, scenarios that arise such as onward distribution of closed-group, unbundled package, region-specific, or identifying clues for opaque rates are not explicitly prohibited by contract. The best way to avoid debate regarding the intent is to agree upon clear, concise terms.
- **Compliance Scans**
Hotels should also take some responsibility for auditing pricing compliance. While partners such as OTAs and bedbanks should also actively monitor retail sales, the best approach is to trust, but verify. By working with the intermediary, a hotel’s observations can help identify transgressors. Most rate parity violations are not isolated to a single property, so others are likely.

Discouraging bad behaviour

One challenge facing even the best marketplaces is the prospect of bad actors spoiling the trust that is essential for smooth operations. The challenge for a bedbank is that a single hotel or travel seller that fails to follow the rules, may not just undermine trust in their organization, but potentially reflect poorly on all hotels or travel sellers, or the entire marketplace.

One concern for hotels is rate integrity. Because the same room may be sold at a wholesale net rate and a retail gross rate, other sellers do not undermine their price in their direct channel.

Even worse, deeper discounts are often provided with the condition that a more discounted rate plan may

only be transacted with a packaged airline ticket or car rental. Distributing such a rate at a discounted price in unapproved channels also creates channel conflict, potentially causing other sellers to question the hotel if they are getting their best rate possible.

This “rate-leakage” typically occurs when smaller, more transactional partners attempt to surreptitiously gain an unfair advantage. Bedbanks that are able to proactively prevent or curtail these practices will sustain the trust of hoteliers and sellers over the long term. Similarly, hotels that offer reduced or downgraded service levels to bedbank customers also reflect poorly on the marketplace in the eyes of the travel sellers.



The Future

As technologies advance, with sellers and hoteliers becoming more sophisticated, bedbanks will focus on capturing and interpreting the vast amount of data they possess to help participants make more effective pricing, distribution and marketing decisions.

Every dimension of the industry is focused on providing enhanced experiences –with the intention of being able to customize those experiences to offer the most relevant and rewarding outcomes. Bedbanks already offer activities, theme parks, tours and transfers in their portfolio of products. Expect bedbanks to enhance the variety and integration opportunities for these destination experiences to help sellers and suppliers boost their product offerings.

As hotel brands, travel sellers and technology providers consolidate, there is no reason to expect that bedbanks would be exempt from the trend. Acquisitions provide a faster path to scale than organic growth, so all players within the industry should expect more consolidation.

With hotels giving so much attention to rate parity, selling to closed groups such as airlines, designated retailers, or membership-based associations, will become a key strategy to capture more booking volume without competing directly with OTAs, or raising the ire of partners. Bedbanks are the ideal vehicle to enable closed group sales as they radically simplify the integration process.



A condensed history of wholesale hotel distribution

- **1867** – Thomas Cook creates hotel coupons to secure fixed accommodation pricing in selected hotels across all major cities it serves.
- **1951** – GOGO Tours and sister retail company Liberty Travel are founded in New Jersey, focusing on affordable all-inclusive packages (both were acquired by Australia's Flight Centre in 2017).
- **1959** – Pleasant Travel Service is also formed New Jersey as a retail travel agency. 1967 brought its first wholesale hotel contracts with the small, but growing Outrigger Hotels.
- **1959** – Clarkson Tours is founded. In the early 1970s, it installed the first real-time, card-reading system in the western hemisphere to manage bookings, flights and hotels in one itinerary.
- **1973** - Owners Abroad is founded and renamed First Choice Travel in 1994. In 2001, First Choice launches the HotelBeds bedbank. In 2007, First Choice merged into TUI AG.
- **1975** – Gulliver's Travel Associates (GTA) was founded in London. It was acquired by Cendant Travel Distribution Services in 2004 and then sold by Travelport to Kuoni in 2011.
- **1990** – Las Vegas Reservations Systems is founded as a consumer-direct travel wholesaler that vertically integrates wholesale and retail distribution tiers to provide discounted stand-alone and packaged travel options. It was acquired by Expedia in 2000 as the foundation for its merchant-model hotel business.
- **1994** – Tourico Holidays is founded in Orlando, Florida. Its focus has been on high volume and is supported by proprietary technology developed internally.
- **1996** – Sabre-backed Travelocity, followed by Microsoft-backed Expedia launch online, as the first major online travel agencies (OTAs). Hotel inventory is sold on a retail model (commission) basis.
- **1997** – Priceline (that in 2005 acquired Booking.com and in 2018 changed its name to Booking Holdings) utilizes a reverse-auction model for its "Name Your Own Price" service to distribute distressed inventory normally allocated to wholesale channels directly to consumers by allowing a traveler to blindly bid on an airline ticket, hotel stay or car rental, with the name of the supplier revealed only after the bid is accepted.
- **2007** – TUI Travel PLC is formed through a merger between First Choice Holidays and the tourism division of TUI AG.
- **2015** – Hotelbeds is spun off as an independent company following the merger of TUI Travel PLC and TUI AG.
- **2017** – Hotelbeds acquires and consolidates operations of GTA and Tourico.



A comprehensive, multi-dimensional approach to value creation

Bedbanks create value in a variety of ways that benefit both hotel partners and travel seller clients.

- The addressable market is expanded for both hotels seeking broader distribution, and travel sellers seeking greater inventory access.
- Given the highly fragmented and geographically dispersed nature of travel, bedbanks eliminate the need for direct contractual relationships between the myriad parties on both the supply and demand sides of the marketplace.
- Economic benefits are derived by both demand and supply-side players through reduced customer acquisition costs for hotels and simplified travel seller inventory contracting by eliminating the need to create a local presence.
- Not only are bedbank-sourced travelers typically hard to reach via alternate channels, but many represent higher-value bookings originating in international markets that book further in advance, achieve lower cancellation rates and take longer trips.
- A secure advanced technology platform significantly lowers risk by limiting cost exposure for integration, transaction processing and financial settlements.
- Network effects are significant, as bedbanks create greater value as the marketplace grows.



Bedbanks are not a magical solution that solves every hotel distribution or marketing challenge. Each participant must perform their role to provide an optimal outcome.

Successful hotels must still provide quality facilities and services that address the needs of their guests, while efficiently operating and effectively communicating how they are differentiated from the competition.

Successful sellers must still clearly understand the needs of their travelers to simplify the shopping process to offer the best lodging options for a particular itinerary and

offer attentive customer service, while also differentiating themselves from competitors.

A quality bedbank not only connects hoteliers with the businesses selling travel throughout the world, but also assists travel sellers to better understand how to pair their travelers with the right hotel and informs the hotelier how to best serve the guest.

The hotelier+bedbank+travel seller formula yields a result much greater than the sum of its parts, creating a trusted global network that produces satisfied travelers and profitable businesses.





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hotelbeds

About Hotelbeds

Spain-based Hotelbeds is the world's leading bedbank, providing over 180,000 hotels worldwide with access to high-value, complementary distribution channels that significantly increase occupancy rates and optimize RevPAR.

Hotelbeds does this by offering hoteliers access to over 60,000 buyers such as tour operators, retail travel agents, airline websites, and loyalty schemes in over 140 source markets. These channels provide returning guests that book further in advance, cancel less, spend more in-destination and stay longer.

Hotelbeds is also the world's largest seller of travel ancillaries, offering 24,000 transfers and 18,000 activities and car hire. 'Beyond the Bed' provides both hoteliers and distribution partners with powerful tools to easily integrate and commercialize its leading portfolio of high-margin products.

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