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## **DO BUDGET HOTEL CHARACTERISTICS EASE DISTRIBUTION?**

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Good morning Ladies and Gentlemen

My colleague panellists today are concerned with the harsh realities and practicalities of driving distribution for, or through, their products and services. As a consultant mainly concerned with the financial and strategic aspects of the hotel industry my role is somewhat different. I am much more concerned with the interpretation of trends, the consideration of where things have been and where they are going and of course how that impacts the fortunes of the industry and of my clients in particular.

The budget phenomenon has transformed the hotel scene in the UK almost to the same extent that budget airlines have transformed European air travel. But there are differences. The budget hotel revolution in Europe began in France and supply is still more significant in France than elsewhere in Europe, although the UK has a significant supply base today, and development is progressing fast in other countries. On the other hand the budget airlines originated in Ireland and the UK and those countries still host the two largest players.

More significant to today's topic however is the fact that budget hotels significantly pre-dated the internet – not true of budget airlines – and their early stages of growth took place in an era where the internet didn't even exist. Yet they were successful, achieving higher occupancy levels than traditional hotels from the earliest days, and yet distribution was carried out by many of the same means and methods. I will pick up on this again later.

It is my view that the key to the success of budget hotels is in the simplicity and consistency of the product. It is easy for the consumer to understand – therefore easy for the consumer to buy and the operator to sell. For the first time the hotel industry had a product that was homogenous and brandable. In much the same way as a Mars Bar, a box of Corn Flakes or a box of Persil, you were able to buy it without needing to ask many questions. What was there to understand from the consumer perspective? – been to one in a brand, seen them all.

The same should have been true of Holiday Inns or Posthouses but somehow it wasn't. The décor varied, there were different room types, different food and beverage or conference and banqueting facilities, and perhaps most importantly, there were different generations of product and design. Lots of things for the consumer to ask questions about, or have concerns over.

So a low cost, simple product wasn't and isn't just about low build and servicing costs. It's as easy to buy and distribute as a Mars bar – well not quite, but not far off. The budget hotel companies originally set up call centres as a key plank of their distribution strategies. They kept costs low and more easily enabled on-selling in the event that a particular hotel was full. In the pre-internet era I remember phoning a call centre and the hotel I was looking to book was full. For the traditional hotel, direct or through a travel agent, that would typically be the end of it. But the budget call centres were quickly alert to the potential of selling a similar hotel product in an equally convenient location. Which direction are you travelling in? Along what road? Well sir, just 10 minutes further along that road there's another of our hotels.....

And then, along came the internet. But actually as well as the internet along came budget airlines and they drove their customers towards the internet. The best prices, advance notice of promotions, internet exclusive deals and no waiting in line for the phone to be answered. The travel consumer suddenly learned that the way to buy was online and the best deals were available there, and convenient too. Eventually the budget airlines moved almost entirely away from call centres and online was the only way to book – and only on the own brand website as well. It was as easy to buy a flight on Ryanair as it was to buy a book from Amazon. The budget hotel companies, who had been ahead of the traditional hotel companies anyway, quickly realised this was the way forward. Their consumers have been educated that the web is the place to book, and the best deals are available there. In my view key to this is the straightforwardness of the product and the fact that it is homogenous.

I do not want to throw too many statistics around in this session – I'm sure we will hear plenty at first hand from the operators over the next couple of days. However I note that Travelodge have stated that 87% of their bookings were achieved via the internet in 2007, up from 83% in 2006. In contrast Premier Inn achieved just over 37% of its bookings via the internet in 2005-2006 but of course it has grown since then.

This brings me to my next point. The internet is not the only valid distribution channel and the call centre is not dead and most likely never will be. Premier Inn moved increasingly towards a voice recognition call centre system a couple of years ago.

The automated booking system enables customers to easily check availability at any of Premier Inn's hotels and make and confirm a booking. Apparently an automated call can take as little as three minutes to make a reservation with simultaneous confirmation by text message. That sort of technology has similar cost efficiency to the internet and can even recommend different locations if the desired hotel is fully booked. A while ago Premier Inn stated that 89% of the callers who stayed with the automated booking system completed their reservation and almost 75% said they would rather use the system than wait in a call-queue to speak to an agent. With that sort of technology it can be seen that an equally valid and cost effective off-line distribution system can be made

available to users who are not comfortable with the internet or who don't have access to it at a particular time.

Another important aspect of budget hotels is that they outperform traditional hotels in room occupancy terms and yet they have a less broad-based market segmentation. The traditional hotel typically analyses its market segmentation by motivation for travel or booking source, and by geographic mix. Thus they develop business plans to stimulate these various segments using different booking media, intermediaries and price discounting. How is it that budget hotels outperform? They have little exposure to the conference market, to groups and tours or aircrew, to name but a few. In addition they are more dependent on the domestic market than full service properties. And on top of that their pricing tends to be more fixed, or at least more transparent.

I would contend that it is the straightforwardness of the product that endears it to consumers. You know what you are going to get, how to book it and how much it will cost you. Returning to my original theme – you are buying into a brand and a location. No need to shop around the web – you go to the own brand website or websites and buy the location and brand that best suits. No need to shop around 3<sup>rd</sup> party sites, no need to be concerned about whether it is the best price and, given the critical mass of leading brands in each country, in most cases it is possible to get quite close to the required location. Given Conrad Hilton's adage about location, location and location being key factors for success in the hotel industry, perhaps budget hotels provide some indication that the world has changed just a bit. Perhaps people will be just a bit flexible on location for the right price and brand!

But it is important to note that distribution and the purchase decision is not only about price. Price can be a stimulant to the purchase decision but other factors also have to be present. But price can be a stimulant to drive consumers towards a particular booking channel – note the way the budget airlines do things, or Travelodge for that matter.....

What we are seeing now is that the major operators are adding content to their sites to stimulate demand and help users find what they are looking for. Major events, theatre performances, visitor attractions all now feature on budget hotel websites to stimulate the buying decision – or more to the point help their customers to understand which hotels of that brand would be suitable locations for them to be based to attend a particular event. What we have not yet seen from budget hotels, or really from the mainstream hotel operators, is content like that of the budget airlines which seek to add to the initial purchase and add on car hire, air travel, insurance etc (although Travelodge have added an insurance option to cover room purchases). This serves to keep the purchase simple but does mean that travellers have to visit third party sites for other aspects of their trip – notwithstanding that, budget hotel operators have kept things far simpler than the airlines – no extra tax and services, no charge for taking a suitcase into your room, or parking your car – so we have to be grateful for that!

We should also discuss third party websites a bit more. Generally we don't see much budget hotel supply on those sites in the UK, in much the same way as budget airlines have shied away from use of third party sites. The commission charges tend to be incongruous with the budget pricing and price structures can also be a poor fit with the simplicity of budget hotel pricing. Nonetheless some of the operators do have relationships with third party sites but they use this strategically to top up certain periods rather than having the channels generally open.

Another aspect of the budget model, impacted by third party sites but true in more general terms, is the importance of cashflows and the simplicity of a business model that has to manage receivables from a number of sources. The management of cash and credit card receivables is relatively simple, cheap, and risk free compared to having to manage receivables from third party travel agents, websites and corporates. This is far more consistent with the budget hotel business model. However some budget hotels, and budget hotel companies, do operate credit facilities for some of these sources, particularly where such sources are key to distribution and yield management and the typically high levels of occupancy which are sought.

Apart from in the larger multi-national companies such as InterContinental Hotels, Hilton and Accor, the loyalty of customers depends on distribution, price, product and brand awareness. The multi-nationals have the addition of loyalty schemes to their armoury but these are not used by national companies and are generally not a feature of the budget concept. No frills means no loyalty points – just a low (or fair) pricing point.

In summary, these are the key to budget hotel distribution:

- Product consistency and brand
- appropriate channel accessibility – which will vary to some extent by consumer preference
- pricing
- promotions which motivate customers to purchase
- and finally a network of properties that enable switch selling so that, rather like the proverbial U-Tube, they all get filled up.

And, in a rather simplistic view, that's how the budget hotels achieve higher levels of occupancy than the traditional hotels! In essence, despite new channels and technologies, the principles of that haven't changed since the earliest genesis of budget hotels.

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