

Electronic Distribution 101:

An Essential Primer for Vacation Lodging Companies

Companies in the vacation lodging segment (timeshares, condohotels, rental properties) have a natural advantage over conventional hotels: they have an “installed” base of customers who will use their services each year. This installed base, of course, is the owners themselves, who account for about half of all reservations at the typical property during the year. The essential question many in the business face: what to do with the other half?

You could hang a “Vacancy” sign out front and see if customers will drop in. You could advertise in travel magazines and newspapers, or you could even engage in the time-honored tactic of producing a nice brochure and doing direct mailing. Some of these efforts will probably generate some customers.

But consider this: research firms who track the travel industry indicate that in 2007 about half of all travel purchased in the U.S. is being bought online. And among the travel booked through retail travel agencies, those travel agents overwhelmingly use electronic reservations systems. So you may want to ask yourself: would you be better off looking into electronic distribution?

Many companies in today’s vacation lodging industry are asking themselves that very question. In many cases, they are struggling with it. They are inundated with offers to list their inventory on some of the many vacation rental websites. They have heard about the global distribution systems (**GDS**) and know that they can (somehow) have their properties in front of hundreds of thousands of travel

agents. And they are also aware of some of the major travel websites such as Expedia, Travelocity and Orbitz, but they are not so sure how to get listed on those sites, or if it is even worthwhile to do so.

This paper presents an introduction to electronic distribution from the perspective of vacation lodging companies. Included here is an overview of the major elements of the distribution landscape, such as the GDSs, as well as an introduction to some of the common approaches and pitfalls to distributing via the Internet and other electronic channels. You will find some key terms highlighted in **blue**. This means they are also listed in our electronic distribution glossary on page 5. This paper will not make you an expert in electronic distribution overnight, but it should certainly help you get on the path to becoming one soon!

Travel Distribution: A Little Background

Electronic distribution of lodging products is not new. In fact, the GDS systems have been around for more than 30 years, first implemented by airlines to facilitate booking of flights by travel agents. Gradually, they moved into lodging, rental car and other travel products, such as packages and cruise.

Over many years, the GDSs have become a relatively efficient way for major lodging providers to offer their products to travel agents and ultimately the end consumer. It used to be fairly simple: a lodging company would connect to the GDS systems (either directly or through a

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— PhoCusWright*

third-party technology entity known as a “**switch**”), and their inventory would be available for booking by travel agents. Upon receiving bookings, the lodging company must pay a **commission** to the travel agent and **booking fees** to the GDS (and switch, if applicable). For many years, this was a pretty straightforward distribution chain with clear financial relationships.

However, the advent of the Internet and explosion in the marketing and buying of travel via the Web has dramatically altered the travel distribution landscape. As lodging companies must contend with the surge of new potential sales channels and economic models, the management of distribution has become much more complex. To compete and succeed in this new arena, vacation lodging companies may be forced to make changes, in many cases changes to how they may have conducted their business for years.

Start with the Customer

So, where should you start? Getting your product in front of the consumer is a first critical step. It’s not the only thing, but it is the one thing upon which everything else depends.

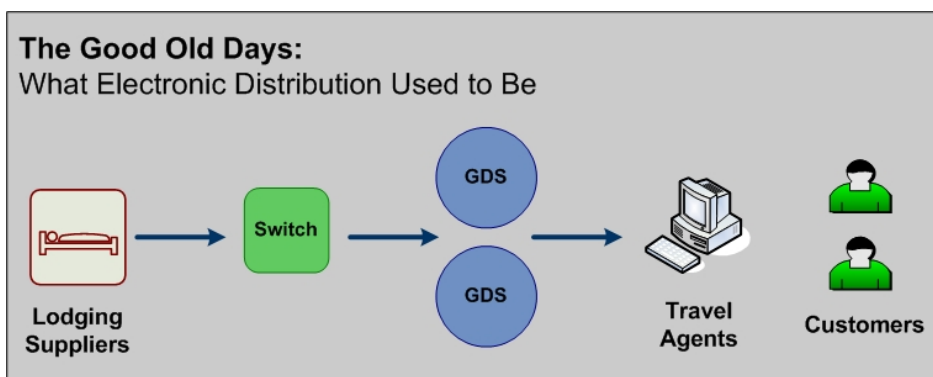
Getting in front of consumers, however, is an increasingly tricky undertaking. Consumers shop for travel on the major online travel websites, such as Travelocity and Orbitz. They also go to travel agents. Some consumers go to websites to rent directly from owners. Others start at search engines and wander around the Web until they find something they like. There

are a great many places consumers go to find travel products. The only way to maximize your property’s exposure to consumers and increase the likelihood that they will purchase your product is to list your inventory in as many of these places – online and off – as possible.

In the past, getting broad distribution was a fairly straightforward affair. Connect to a GDS or switch, and your inventory is available for booking at most travel agencies. Even in the early Internet days, listing with a switch was enough to make your product available via the online travel agencies, who use the GDSs themselves to access flights and many other travel products.

But things started getting complex as the major travel websites initiated the **merchant programs**, going directly to the lodging companies, requesting special pricing and **net rates** in return for better placement and marketing promotion on their websites. Hotels and online travel agencies also started implementing system-to-system connections, or **direct connects**, bypassing the GDS and switch companies to eliminate the booking fees for suppliers. Travel websites also introduced **extranets**, where smaller and medium-sized lodging companies could load their rates and inventory through a special website to list their properties and sell via those online agencies.

For most lodging companies today, it is not enough to connect to a GDS to achieve sufficiently broad distribution. For starters, there are four major GDSs, and different travel agencies and websites use different GDSs. Second, the merchant programs have become so large for the major online travel agencies that they overwhelmingly favor the inventory in their own program over the published rates available from the GDS, from which they would earn a smaller commission.



Turn On the Switch

The most efficient way to get broad distribution is to partner with a switch company, a third-party partner that provides a single point of connection to distribute to several GDSs and, in some cases, online travel websites as well. In this scenario, when a vacation lodging company is connected to the GDSs via a switch, the company pays transaction fees to the switch and to the GDS for each booking generated from that channel.

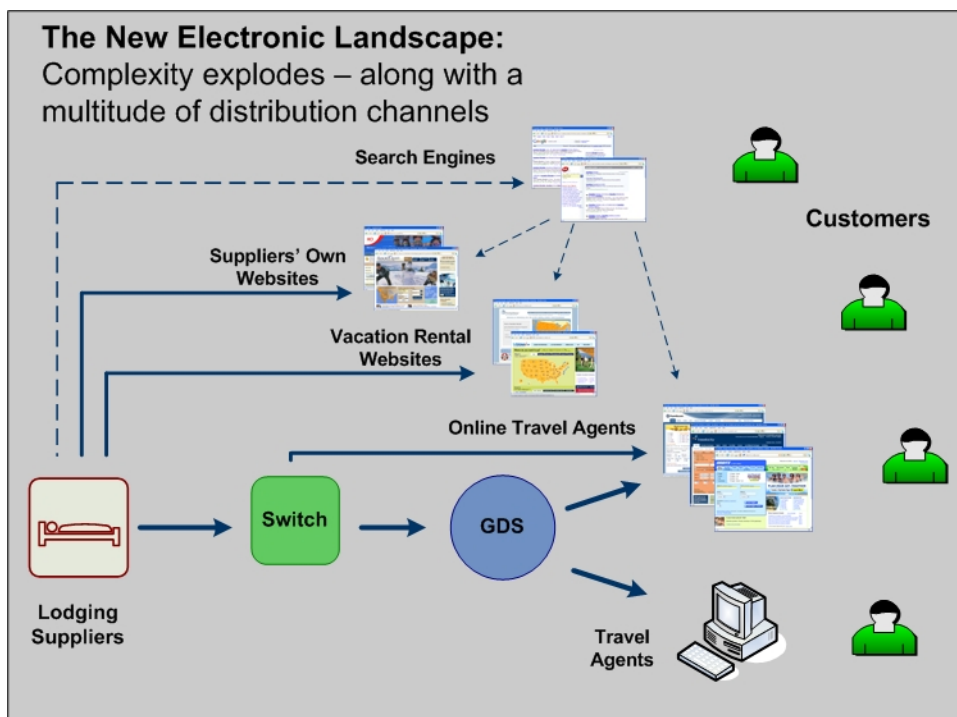
But connecting via a switch may not always provide 100 percent coverage, since online travel agencies do not generally source product for their merchant programs from switches and GDSs. To make your products available for booking via the major travel sites, you must connect your reservation system to theirs, which is generally only appropriate if you are a relatively large organization with the technical resources to connect your systems. Another option is to load your product information manually via their web-based extranet.

Online Agency Merchant Programs

Distribution via the major travel websites, by the way, is not cheap. These contracts will be expensive. The biggest players often charge in excess of 30 percent of gross for merchant distribution. This means the online travel agency acts as the merchant of record; they process the customer's credit card and provide frontline customer service. All you need to do is hand the guests the key when they arrive.

Online agency extranets provide a relatively low-tech means of listing and selling properties via the major travel websites. The extranets are generally easy to use and allow you to update your rates and inventory anytime over the Web. But bear in mind the potential pitfalls as well. As a service that must be managed manually, you will have to re-key reservation data into your property management system. And you will have to keep close tabs on inventory levels to avoid double bookings. When you receive bookings from other sources, you need to go to the extranet to adjust your inventory levels accordingly. These are the types of issues that are almost entirely eliminated with a direct system-to-system connection, or direct connect.

With any manual process, the opportunity for error increases. In our experience, companies that use multiple extranets to distribute on many online travel sites can become burdened by maintaining multiple inventory allocations as well as the extra data entry. And keep in mind the soft human cost as well – you will have to allocate staff time or hire a new employee to manage your extranet participation. (For more on this topic, see our other white paper, "Multi-Channel Management – The Hidden Costs of DIY Distribution.")



Last major point with online travel agencies: you will need to decide if you want to go with a net rate (which lets the online agency mark up the rate you give them) or a commissioned rate (where they take percentage of the price you set). If you manage your pricing on a day-to-day basis, go with a commission rate to maintain control. If you are like many vacation lodging managers and do not vary rates frequently, go with a net rate agreement. Your distribution partners will then manage your prices in response to market conditions.

Property Merchandizing

OK, now you have distribution – so you are on your way! However, simply being listed on these electronic channels is not enough. You need to make sure that your property is competitive with other products in your market. In the online travel world, comparison shopping has never been easier. With just a few clicks of the mouse, consumers can shop across hundreds of products and services minutes, if not seconds. If your property is not priced competitively, or if the pictures and property information are not up to snuff, there is plenty of other product on the Web to catch their eye.

The Price Is Right

Perhaps first and foremost is pricing. If you price too high, then the result is, well, all too obvious. You are not going to see many bookings. Indeed, since the most common means of ordering search results by travel websites and agency booking systems is by price (from low to high), your property may never reach the first two or three pages of results if the price is not right.

But having the lowest price is not necessarily the right strategy either. If you price too low, you could be leaving money on the table. Even worse, over-discounting can raise doubts about the quality of the product and negatively affect your brand. The key consideration for pricing is competitive optimization: are you priced at the best rate to

compete effectively with properties in your market while maximizing your booking volume and revenue. Getting pricing right in the world of electronic **multi-channel distribution** is both an art and a science, and takes careful consideration, patience and persistence.

Picture Perfect

Even if the price is right, the product will not move if it does not look the part. A few key points to consider:

- How do the photos of your properties compare to those of your competitors?
- Have you listed all features and amenities?
- Do you have a snappy write-up that is easy to read and makes the property appealing?

And what about your property rating? Some online travel agencies have their own star rating program.

- Has your property been rated fairly?
- How does your pricing compare to similarly rated properties on that website?

Getting Started

If you find all of these questions a little overwhelming, don't worry. You're not alone. Property managers grapple with these issues every working day. There are several things you can do to start small and work your way towards a complete and effective strategy for electronic distribution. First and foremost: think hard about distribution and familiarize yourself with the landscape. After you do this, you will almost certainly conclude that you need to do *something* in the space.

And you are not without help. There are a number of resources available – companies with dedicated expertise in these areas to help you implement your distribution strategy. Conceiving and implementing an electronic distribution strategy is no easy undertaking, but can you afford not to?

A Vacation Lodging Distribution Glossary

Here are explanations of some important industry terms used in this paper:

<u>Booking Fee:</u>	The fee charged by a global distribution system (GDS) or switch to the lodging supplier for a booking.
<u>Commission:</u>	A percent of the gross revenue on a booking that the lodging supplier pays the distributor, such as an online travel agency or traditional travel agent.
<u>Direct Connect:</u>	A system-to-system link that allows distributors such as online travel agencies or switches to access rate and inventory information directly from a lodging supplier's reservation system.
<u>GDS:</u>	Travel agencies and many travel websites access global distribution systems through their reservations systems to access and book products of airlines, hotels, car rental companies and other travel product suppliers. There are four major GDSs: Amadeus, Galileo, Sabre and Worldspan.
<u>Merchant Program:</u>	Online travel agencies establish contracts directly with lodging suppliers and act as the merchant of record. They process customer credit cards and provide frontline customer support. Such contracts are typically based upon net rates and may bypass the GDSs.
<u>Multi-Channel Distribution:</u>	The management of distribution across multiple points of sale, such as online channels like online travel agencies and the supplier's own website, as well as offline channels such as traditional retail travel agencies, walk-up and call center. Also referred to as "channel management," more sophisticated multi-channel distribution programs may include tailoring specific products, pricing and availability rules to different channels.
<u>Net Rate:</u>	A set contract rate that a lodging supplier provides to a distributor. The distributor adds a markup to that rate to arrive at their selling price.
<u>Switch:</u>	These are technology companies that facilitate connectivity to multiple distribution channels. A lodging supplier can connect once to a switch, thereby making their inventory available on all of the channels the switch is connected to, without having to connect to each channel separately. Switch companies include LeisureLink, Pegasus and TravelClick.



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About LeisureLink

LeisureLink makes unique vacation lodging widely available through online travel sites and traditional travel agents. LeisureLink not only delivers broad distribution, but also provides revenue management tools that maximize property managers' profitability in all market conditions and seasons. Our clients include vacation rental, timeshare, and condohotel properties. For more information visit www.LeisureLink.com. To view properties visit www.vatopia.com.