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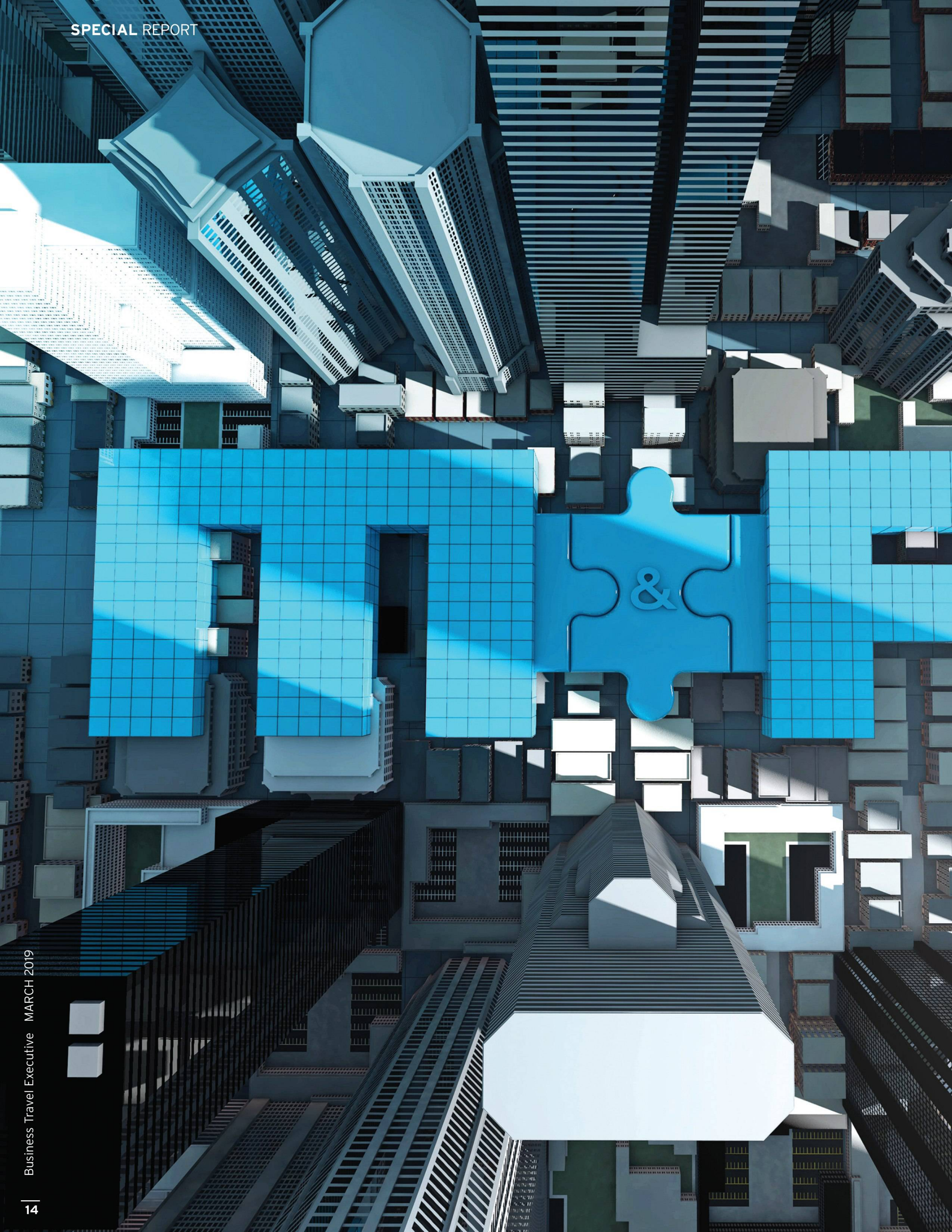
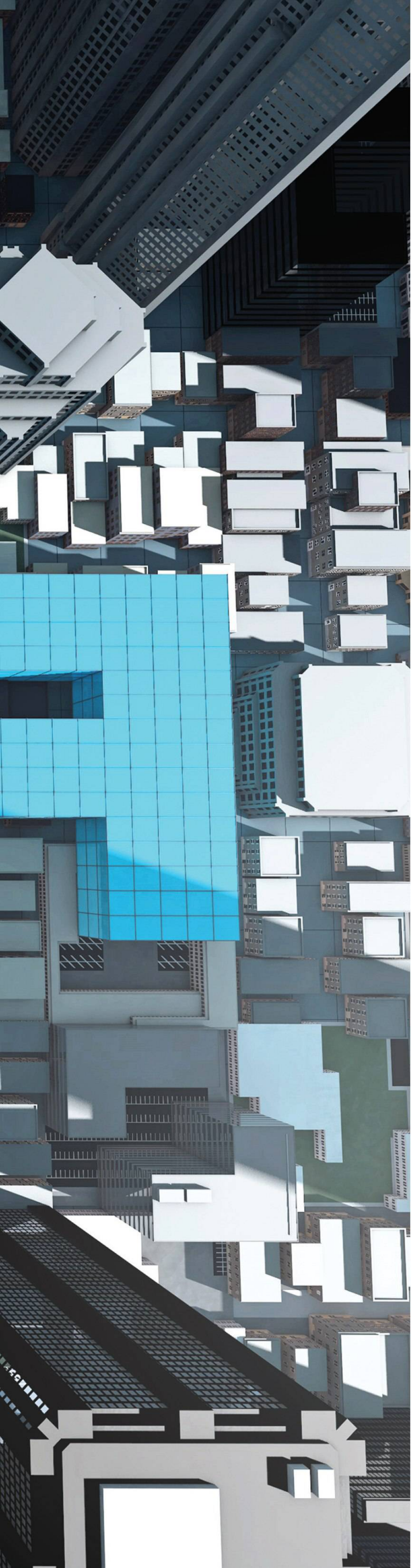
Consolidating Gains
Do hotel M&As spell boon, bust – or both – for your program?





Consolidating Gains

As hotel industry mergers and acquisitions continue, is the result for travel programs a boon, bust – or both?

By Harvey Chipkin

Consolidation has been all the buzz in the hotel industry for the last few years. While the headliner was the acquisition of Starwood by Marriott, there have been other mega-deals – like Accor buying Fairmont Raffles Hotels International (FRHI), IHG acquiring Kimpton, Wyndham buying La Quinta and others.

But those are just the high-profile transactions. For instance, to cover all the bases with travelers seeking different kinds of accommodations, Accor also bought 21c, a group of "museum-style" hotels; and Hyatt acquired Two Roads Hospitality, a boutique collection.

Normally, consolidation would mean more leverage for the ever-bigger hotel companies and a tougher negotiating position for travel managers – and indeed that has happened. But discussions with players and analysts shows that the picture is more muddied, and there are positives for travel programs in the M & A trend.

For one thing, even with its mammoth global size Marriott controls a relatively small percentage of hotel rooms worldwide, particularly outside of North America. Also, the ever-growing presence of third parties – for example, OTA's like Expedia and Booking Holdings – further complicates matters. And in the end, the corporate/hotel relationship tends to be an individual one.

Some insiders say it's too early to even say how much of an impact consolidation will eventually have on corporate hotel programs. Michael Heflin, senior vice president-hotel division for Travel Leaders Group, notes that from a travel manager's point of view, Marriott and Ritz-Carlton have just completed their integration – and that deal happened over 20 years ago.

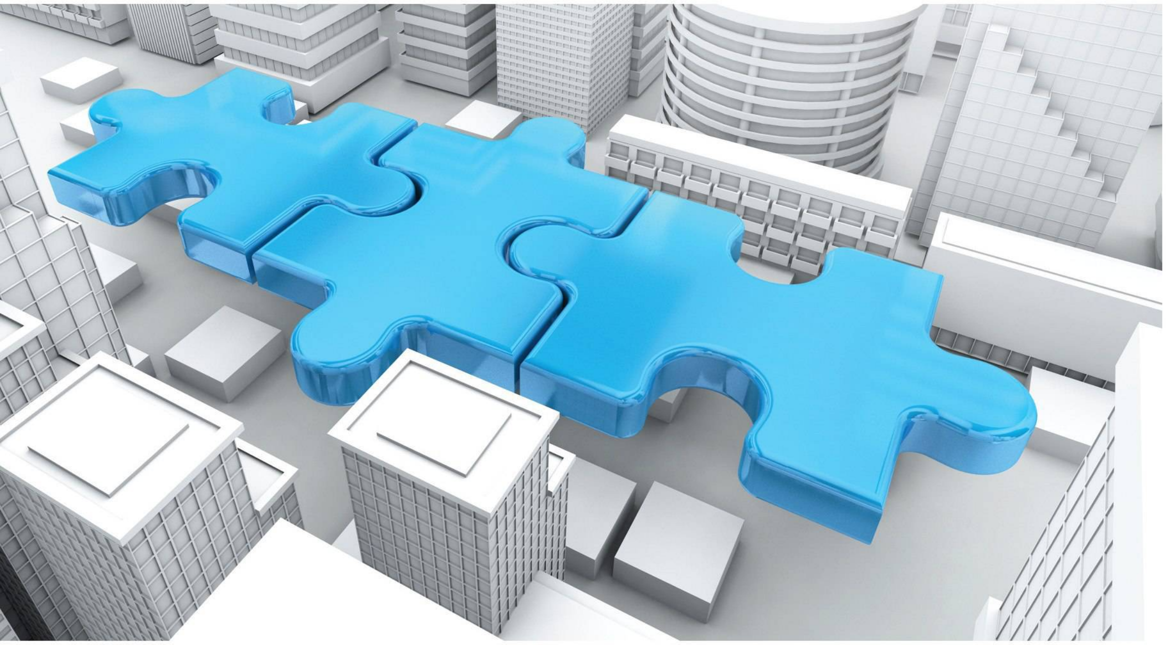
But Heflin did add that size inevitably means power. When Marriott had only 1,000 hotels, he says, a company with a million room nights could have real leverage. Now with Marriott at 6,000 hotels, that influence is not the same. "There's a need to match volume for volume to remain a relevant distribution channel," says Heflin.

And while Neil Hammond, a partner with GoldSpring Consulting, agreed it is still early to ascertain impact fully, he adds there has already been a form of consolidation when it comes to corporate travel. He notes a large number of programs in North America are approaching 50 percent of their preferred properties going to Marriott and Hilton, so consolidation is already here.

One clear demonstration of the size-equals-power calculus was Marriott's cut in commissions on meeting business to 8 percent. But Hammond says on the meetings side of the equation commissions are more transparent and traceable than on transient business which calls for extensive reconciliation.

William Sarcona, assistant general manager, KIE/Kintetsu International, says the ongoing increase of hotel mergers creates less competition which can lead to higher hotel rates, "causing the negotiation process to be more challenging." Also, by combining different frequent traveler programs, hotels can reach a larger customer network with an even bigger loyalty program.

Corporate travel has become more reliant on fewer lodging options, says



Consolidation offers more options to meet traveler preferences while providing travel managers better reporting.

Kenan Simmons, vice president of sales for Small Luxury Hotels, a factor which he says allows hotel companies to impose stricter policies and preferred rates. Consolidation, he continues, favors larger hotels/chains as they can absorb larger volumes and are built to maximize capacity over anything else.

Yon Abad, vice president-suppliers for RoomIt by CWT, agrees the impact of consolidation is being felt in the form of tougher cancellation policies and reduced commissions for some transactions.

Consolidation has strengthened the negotiating hand of large hotel companies, says Abad, as they continue to become much more selective in the business they are willing to discount. He points out his company's consulting group has seen room night requirements increase substantially over the past few years, driven in large part by consolidation.

However that hasn't translated into a significant jump in average daily rates from the larger chains relative to independent and smaller chains, says Abad. One reason, he explains, is property-specific negotiations can benefit companies as even hotels within chains often compete for the same business.

The Upside to Size

There's no question that positives for travel managers and TMCs come with consolidation. Sarcona says it is these very mergers and acquisitions that are driving many travelers to turn to their travel management company to seek out their expertise with regard to loyalty programs and rate negotiation assistance. The post-merger confusion and chaos associated with ironing out the newly combined loyalty policies and rate structures is a boon to TMC's and travel managers, says Sarcona, "as their guidance is needed now more than ever."

Sometimes it's just easier to deal with a larger entity. As Hammond points out, travel managers would have a single national account manager covering more properties, facilitating communication. In addition, the company would be more likely to have a property in a desired location. And finally, more properties available means more contribution to the threshold of room nights.

In addition, larger companies are in a position to develop emerging markets like Africa or the Middle East, says Hammond, providing more attractive options for corporate travel programs looking for properties that North American travelers know and trust.

In many cases, says Abad, corporations can limit the number of chains they work with and focus on driving the relationship with particular chains. As a result, relationships have become more selective.

Simplified commercial management, notably for corporate RFPs, is also an important and beneficial outcome. Additionally, consolidation offers more options to meet traveler preferences, and intensifies the power of loyalty programs, says Abad, while providing travel managers better reporting availability and quality from the large chains.

Jennifer Hagenbuch, corporate director of sales for OLS Hotels & Resorts, a management company, says travel managers are huge supporters of the one-stop shopping process and have been for years. "This decreases their work load and increases productivity," she says.

Culture Clash

Although it may not have a direct effect on hotel programs, combining cultures after an acquisition can present issues to travel managers. As one observer says, Marriott and Starwood had different approaches to loyalty and other programs and whenever companies merge, "you have to go with one culture or approach – and that may raise concerns."

Hagenbuch says in recent years larger hotel chains have been acquiring smaller ones to capture "the boutique, edgy and stylish trend that they haven't been able to capture on their own." She believes the corporate relationship and guest experience have suffered as a consequence. "The smaller boutique hotels were built on innovative experiences and relationships," she says. "Now they are part of a larger conglomerate where they no longer excel in this arena and rely solely on its parent company for direction."

While the major mega-brands have snapped up companies like 21c and others, there are still small networks that can provide leverage if they fit within a company's particular travel patterns. Of course, homesharing continually looms as an option. But as Hammond pointed out, homesharing has not taken off like

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ridesharing, in large part because of legal considerations around safety and security.

Simmons says when dealing with smaller hotel portfolios, managers can find agile partners who offer unique terms or special experiences. "It is an opportunity to be creative with both rates and inclusions," he says.

Value and service quality are TLG's goal, says Heflin, not merely a commoditized hotel product. He says TLG's partnership with American Express, which provides certain cardholders access to American Express Travel's Hotel Collection, offers a great fit for corporate travel managers in the face of consolidation because it insures they get breakfast, upgrades and other amenities.

Hagenbuch says OLS believes there is a huge demand for the smaller hotel companies "with that personal touch that many corporate travel managers and traveler alike are still hungry for."

Still, big players say they can offer the traditional as well as alternatives in a powerful combination, says Jonathan Kaplan, vice president, global sales strategy for IHG. "At IHG, we are focused on strengthening our brand portfolio – both through launching new brands like Avid and Voco and by acquiring brands like Kimpton and Regent. In each case, we are focused on the segments where we see the biggest growth opportunities in the right markets."

As a result, says Kaplan, IHG can offer even more choice to corporate travel buyers. These new brands leverage the company's scale – more than 5,500 IHG hotels globally – and systems, but also benefit from customized corporate travel offerings and chainwide discount programs. The new brands, he says, also offer the proprietary tools that help hotels manage the RFP process "with a focus on getting to the right price faster and make the sourcing process less cumbersome and more valuable to corporate travel buyers."

Heflin says partnerships like Hyatt's with Small Luxury Hotels – with SLH becoming part of the World of Hyatt loyalty program – might be an easier way for hotels to go as those kinds of deals can bring loyalty programs together without hotels having to go through the challenges of integrating entire booking and other systems. He explains that kind of partnership works for a lot of companies seeking to achieve the "dream of corporate travel" for their employees where travelers can stay at lower-priced hotels but redeem awards at luxury properties.

Tactics & Strategies

There are things a travel manager can do in the face of consolidation – often involving doing more of what they have always done. For instance, as Hammond points out, managers need to demonstrate that they can move people to different hotels. And that takes "aggressive" tactics, not just pointing to preferred hotels but actively directing travelers to those locations.

Travel managers, says Simmons, can't rely solely on big box chains when they need to continuously look for something new and different. Other factors such as location, value added amenities and relaxed policies can help an independent hotel win an agreement over a hotel that is thought of as more "corporate."

At a certain point, says Simmons, travel programs will reach a limit vis à vis consolidation as they do not want to be too reliant on and limited to one or two hotels in a very large city. Availability of a negotiated rate is every bit important as the rate itself, he says.

Finding a room on short notice at a hotel that is suitable for their travelers' needs is still a priority for programs, and relying on fewer and fewer in-program hotels can make that last-minute availability difficult. As a result, says Simmons, there will eventually be a point of diminishing returns for consolidation, "but for now it still seems to be an effective tool."

Another trend shifting the landscape are acquisitions that are becoming less traditional: Accor is buying non-lodging distribution channels and other companies, and LMVH, a luxury goods company that owns Christian Dior and Louis Vuitton, is acquiring Belmond hotels, in a horizontal acquisition. These are complimentary assets, says Heflin. In all these cases, he maintains, companies are expanding on what they do best.

In the end, according to Heflin it's a great time for both hotels and travel managers because when companies are doing what they do well, that maximizes value for everyone. If everyone simply acquired hotels because they're hotels, he says, "we would end up with a lot of big red boxes that are indistinguishable from one another that offer little value." BTE