

# An Equitable Approach to Hotel Reservations

## Combining Search with Direct Reservations to Eliminate the Problems Caused by the Merchant Model

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Look closely at how online reservations for hotels are done today, and you'll find that none of the methods effectively meet the interests of all participants involved in the process. That's what the founders of Rezzline did a few years ago, then set out to create a better way to do the job.

### Today's "Solutions" Are Ineffective

With today's dominant method for making online hotel reservations, every participant loses something except for the online retailer. Travelers have limited choices, and are barred from dealing directly with the hotels; hoteliers are paying huge commissions, and even cities are losing revenue in decreased bed taxes.

There are three models primarily used today to accomplish an online search for a hotel and the subsequent reservation. These include the third party merchant model, the direct model, and the aggregation model. Each fails in one way or another to serve the best interests of either the traveler, the hotel, or both.

In this paper we're going to take a closer look at how these models operate and the problems they cause. We'll then present a new system which manages to find balance in a "win-win-win" solution to better serve the goals of all parties involved: the traveler, the hotelier, and the cities.

### The Merchant Model

In the merchant model, an online retailer contracts to sell some of a hotel's rooms by managing that inventory as its own. Like any other retailer, it needs to buy inventory at a wholesale price. For hotel rooms and other accommodations there is no wholesale price, so property owners end up accepting deep discounts. This isn't too far from how travel agents have operated with three distinguishing factors: the higher commissions demanded by online merchants, the higher percentage of sales they now represent of a hotel's business, and the accounting impact of the charge to the hotel being a discount instead of a commission.

### High Commissions for Hotels

Most hotels forgo a 18-30% discount for these retail outlets. The largest chains have leveraged their large inventories to negotiate lower rates, and minimized how much inventory they allow to be sold this way, though it still represents a significant percentage. Meanwhile, the smaller chains and independent hotels, motels, and inns, lacking collective bargaining power, are still paying the higher end of the commission rates, and still rely heavily on the consumer traffic from merchant sites.

While opting to not sell to the online merchants is technically an option, the reality is that hospitality is increasingly an internet driven market place. For the year of 2007 (latest year full-year data is available), approximately 44% of all reservations among 30 major brands

were made through the internet. This number has shown steady increase across previous years and was 47% for the first two quarters of 2008.<sup>1</sup> Voice-based reservations were down to as little as 22%. GDS channels made up the difference with a total of 32%.

The point being, of course, that a hotel's presence in online booking systems is a major source of sales. However, these sales are costly.

### Cities Losing Revenue Too

Coupled to this loss of hotel revenue, are losses in municipal revenues from "bed taxes." Cities add a tax to accommodation room rates to help pay for infrastructure used by visitors. When a hotel room is booked through an online merchant, the hotel is no longer paid its full rate directly by the traveler. Instead, the hotel is paid by the merchant which takes its cut before the hotel room is paid for.

In fact, using the term "commission" is somewhat misleading. A commission is paid by a supplier as a cost of a sale to the selling agent. In the case of the online reservations merchant, the tables are turned. The traveler pays the merchant which then pays the hotel for the room at a discounted rate. It's an accounting technicality, but one that affects the amount of

tax the city receives for the room. If the room were to normally retail to a walk-in guest at \$100, and the tax rate were 10%, the city would be expecting \$10 in taxes. With the online merchant paying just \$75 for the room, the city now receives only \$7.50.

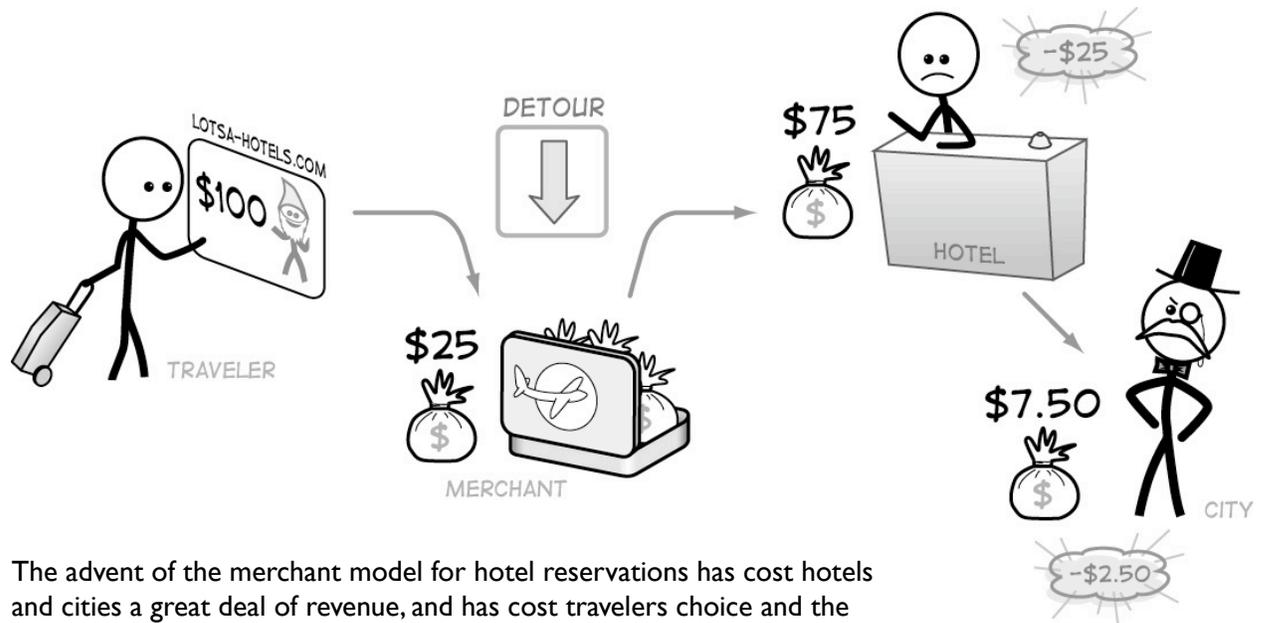
The losses have been so significant that for the past few years numerous major cities and counties have sued several of the online merchants for the difference in lost revenues. This strategy has failed, however, as cases are widely being rejected by the courts.

### Traveler Choices Arbitrarily Limited

The traveler suffers from this merchant model in many ways they're probably not even aware of. To start with, the selection of hotels in any one area is limited to those the retailer has contracted with.

Much like the concerns with a practice called "racking" with traditional travel agents, travelers are not being fully informed as to available options, because the travel agent or online merchant appears to openly offer products from any supplier, yet actually stands to profit from promoting a select few suppliers.

Even with the hotels a merchant may have contracted rooms for, they are often limited to



The advent of the merchant model for hotel reservations has cost hotels and cities a great deal of revenue, and has cost travelers choice and the ability to deal directly with hotels.

the number of rooms they can sell. A merchant may be allocated only 5 rooms from a hotel. After the merchant has sold those 5 rooms, its web site will display “no availability” for that hotel even if the hotel is actually half empty.

## Guest Services are Impeded

We mentioned above that the technicality of how the traveler pays the merchant and not the hotel ends up costing cities lost taxes. This same arrangement also has the side effect of reducing the hotel’s ability to provide common services to its guests.

When a merchant sells a reservation, it has effectively sold a perishable item good for a specific room on a specific day. If the traveler needs to make changes to that reservation, the hotel is incapable of making changes for the traveler. The hotel hasn’t actually been paid. There is no “contract” between the hotel and traveler. The traveler must go back to the online merchant to middle-man the changes. Since the retailer has no guarantee that a room will be allocated for it to sell on the new date, the retailers typically charge cancellation and change fees to protect their revenue.

Even if the traveler is physically at the hotel and wants to change his room, it is entirely common for the hotel to be unable to make a change. Had the traveler paid the hotel directly, the hotel can simply issue a refund for the original room, then allocate a new room. With the merchant in the middle of the transaction, the hotel has to require that the guest first deal with the cancellation through the merchant.

The hotel is blocked from offering its guests the normal courtesy services any traveler has come to expect over decades of common practice. Clearly both the hotel and guest suffer from not being able to manage their business directly with each other.

## Hotel Information On Retailer Sites is Often Wrong

The merchant is motivated to keep the traveler away from the hotel’s web site to protect its retail sale, so it creates its own search content, inventory, and reservations systems.

As a result of this practice, information about a hotel is prone to error and being outdated, and the hotel has no control over it. None of the major merchants have a support system to allow hotels to update information either directly, or even by phone or email. Merchants typically rely on a network of third party data suppliers. Often, multiple data suppliers are aggregated, and there is virtually no way for a hotel to determine how to get incorrect information corrected. This results in misinformed guests with unmet expectations.

Again, clearly, neither the traveler’s nor hotel’s interests are being well served.

## Who Wins from this Model?

Pretty much the only winner in this system is the online merchant. Injecting itself as a middle-man between parties which used to conduct business directly has created significant problem areas for everyone: the traveler, the hotel, and even cities.

Why does it persist? The online merchant, even if it does offer an arbitrarily limited set of choices, does allow a person to quickly and conveniently search and compare hotel prices and properties without the phone tag hassles of using a traditional travel agent, and at a time of the traveler’s choosing, day or night.

The convenience of searching, comparing, and purchasing over the internet is both highly applicable and undeniable.

## The Direct Model

Realizing the loss of revenue, brand erosion, and degradation of guest service incurred at the hands of the merchant model, hotel brands with sufficient resources decided to regain control by building their own online search and reservations systems. The major chains poured huge promotional resources in advertising and rewards programs to persuade travelers to shop directly on hotel sites. They met the online merchant competition head-on with price guarantees, loyalty programs, and a re-emphasis of guest service.

## Hotels Win Back Control

From the hotel's perspective, it regains direct contact with guests (with all service advantages of that relationship), and it recoups revenues lost to steep discounts.

## But Traveler Convenience is Lost

Travelers gain in being able to depend on accurate information directly from the hotel's own web site. Booking with the hotel directly also wins them back the service factor that was lost through the merchant.

However, travelers lose the one advantage of the merchant model—the ability to compare availability and rates in one convenient system (even if it was for only a subset of hotels in the area). Travelers now have to work much harder to shop and compare. Even if they have brand preferences, they must now use multiple different web systems to search for which brands even exist in a given destination, and then whether there is availability. This pretty much increases the time it takes to find a hotel, and makes comparing significantly more challenging (especially for people who aren't adept at manipulating multiple windows in their computers and web browsers).

Additionally, this model is only effective for the major brands which can provide a search

for numerous destinations because of the multitude of properties they operate. This leaves all the smaller chains and independents without a competitive solution.

This model is mostly better, but still leaves a vital consumer need unresolved, and only serves a portion of the industry.

## The Aggregation Model

The aggregation model isn't really much of an improvement over the previous two models. It's primarily a tactic of online opportunists to overcome the limited set of hotels any one merchant has in any one area by combining multiple merchants into a single search site. For some aggregators, the aggregation may be secondary to additional features such as trip planning and other travel functionality designed to attract traffic for advertising revenues. However, many of these sites are actually owned by the merchant companies.

These businesses are a minor variation of the merchant model. While they may help a traveler not have to separately search two or three merchants, and provide their services, they don't solve any of the inherent problems of the merchant-based purchase.

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<sup>1</sup> Data from <http://www.travelclick.net/information-center/bookings-by-channel.cfm>

# The Rezzline Model

So, with all the problems the merchant and direct models create for online reservations, is there any way to satisfy everybody's needs? This was the question that occupied the minds of Rezzline's founders, and eventually they came up with the ideas that formed a new model for doing online reservations that meets all of the objectives of each participant.

## It's a Directory

To relate it to a known model, the Rezzline solution is most similar to a directory – a “yellow pages” of sorts – where every hotel is able to be listed with either a simple free listing or an upgraded paid listing. Of course, by “hotel” we mean hotels, motels, bed and breakfasts, resorts, and a variety of similar accommodation providers (not campgrounds).

## Hotels Control Their Own Listings

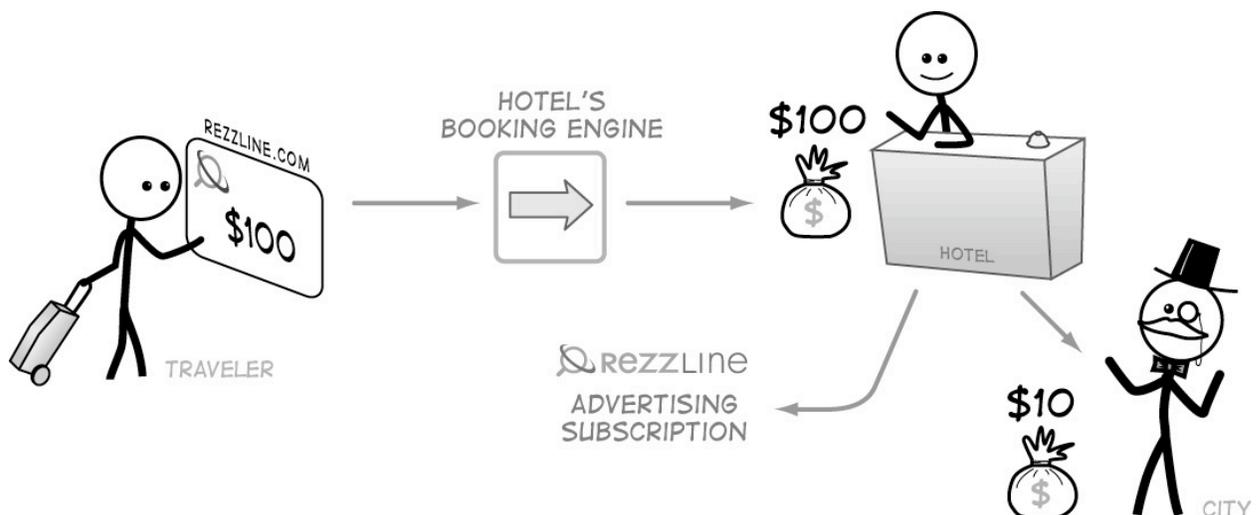
A hotel creates its own listing for the Rezzline site by creating an account and using our web site to enter contact information, a property

description, amenities, and photos for a specific property. Listings are displayed with a common structure so they're consistent for the traveler to read, but the hotel controls the content details.

Regardless of the listing style, each hotel enters the same type of information such as description, amenities, and local attractions. This enables Rezzline to search every hotel's listing on equal grounds for relevance to the traveler's search criteria. If a free listing calculates to be the most relevant match, it will be listed above paid-for listings in order to remain true to the traveler preferences.

## No Commissions or Discounts

Basic listings contain the same amount of data as paid listings for the search engine, but the basic listing shows only essential contact information and a link to the property's web site. Hotels have the option to pay for enhanced formats which display more text and photos for travelers to compare and make decisions with.



With Rezzline, hoteliers create a free or upgraded directory listing. Travelers search and compare like they're used to, but then book directly with the hotel. There's no commission. Hotels (and cities) earn full revenues, and travelers deal directly with the hotel for any changes in rooms and schedules.

Upgraded listings are paid for as an annual advertising subscription. This is Rezzline's primary source of revenue. There are no commissions, and no transaction fees.

The Rezzline listing provides web, phone, email, and reservation links directly to the hotel. When the traveler has made a choice, the reservation is booked directly with the hotel either online at the hotel's own web site, its booking engine's web site, or by phone.

## Connecting, Not Transacting

A critical distinction to understand is that Rezzline is not in the business of making, taking, or facilitating reservations. There is already a suitable infrastructure for that with a hotel's property management system, its booking engine, and its web site.

Rezzline is in the business of connecting that existing infrastructure directly to the consumer in a way that no single hotel or reservations vendor can do on its own. We are enabling *seekers* and *providers* to make direct communication and transactions. No more middle man!

# Rezzline Eliminates The Merchant Model Problems

We believe this simple model, in one stroke, fixes numerous problems with today's system. We like to call this a "win-win-win" scenario as travelers win, hoteliers win, and cities win.

## Travelers Win

### Search, compare, then book direct

With the Rezzline search site, travelers have the convenient search and compare tools they've grown accustomed to with the merchant sites, but now they'll have more choices, and they'll bypass the middle man and book directly with the hotel.

### The middle-man is eliminated

Since travelers make reservations directly with the hotel, there's no more finger pointing; no more "call *them*" to make reservation changes.

## Real-time Price and Availability

We take the listing a step further by connecting directly to the hotel's own electronic inventory system. While this won't be possible with some hotels, it is possible with the majority of them. Using an automated connection to the hotel's central reservation system, Rezzline is able to query details about room availability and prices in real-time. These prices are the exact same numbers from the same source that the hotel's own web site would display which is typically their lowest published rates.

Where other systems display static price ranges which provide no real information about what is currently available, or inflated prices to cover the costs of merchant discounts, Rezzline will always displays the hotel's lowest currently available price, along with all other available room prices.

With respect to availability, our connection to the hotel's own inventory allows Rezzline to help travelers find the last available rooms in a hotel. As will be explained shortly, the hotel is no longer motivated to restrict the sale of only a certain type or number of rooms.

There's also no more paying for commissions to people that end up getting in the way.

## Earn Brand Loyalty Rewards

If a traveler's preferred brands offer loyalty programs, they typically don't apply to reservations made through merchants (after all, that has already cost the hotel significant revenue). With Rezzline, a direct reservation means travelers earn full loyalty points where applicable from their preferred brands.

## Real-time lowest price

Rezzline's real-time connection to hotel inventory means travelers will see real rates for rooms that are actually available, and not just estimated ranges. Will those rates be the lowest available? Hotels are pretty good these days at making sure their online rates are not being undercut by the merchants because even if they

have to lower a standard rate to meet another advertised price, that's still costing them less than the merchant commission. Obviously, Rezzline has no control over lowest-rate guarantees, but we are connected to what is typically the lowest published rates.

### Last-room availability is visible

Hotels like to be full, but they don't want to sell the last available rooms through expensive merchants when they know they can probably sell them on their own. So, they limit how many rooms a merchant can sell. "No availability" on a merchant site doesn't mean the hotel is full, it means the merchant can't sell any rooms.

With Rezzline, all reservations are direct, so the hotel earns exactly the same rate as if it sold the room on its own. Now the hotel is motivated to allow the entire inventory to be visible to Rezzline users. If there's two rooms available in the whole town, they should be visible and available through Rezzline. Can we guarantee that hotels don't keep a room or two in unpublished reserve? No, but we're confident most won't need to.

### Incorrect hotel descriptions are virtually eliminated

Rezzline designs listings for consistency, but every hotel has direct control of its own description, photos, amenities, and contact information using a web site to edit its own listing. This allows hotels to keep information updated. We also intentionally keep the overall amount of information from being too extensive so hotels don't ignore their listings due to being too much work to maintain. Additionally, when in doubt, the traveler can always click straight through to the hotel's own website from any Rezzline listing (paid or free).

## Hotels Win

### As much as 25% revenue restored

Rezzline collects no commissions or transaction fees. Fixed annual subscription costs come from the hotel's advertising budget. If hotels can stop allocating rooms to the merchants, because

they can sell equally through Rezzline, they'll recover the revenue that has been lost to those high commissions.

### Revenue is realized immediately

Retailers collect payment from the traveler, then pay the hotel as much as 90 days after the traveler's stay. Rezzline eliminates the cashflow delays and other accounting problems from this arrangement as the hotel is paid directly by the traveler with no detours through Rezzline.

### No additional channel management

Reservations from Rezzline are direct sales. There's no need to allocate limited amounts of rooms in order to manage revenues. A sale from Rezzline is no different than a sale which comes directly from the hotel's own web site or over the phone because the sale actually *does* come from the hotel's own website. Therefore, there's no need to manage a Rezzline channel because the "Rezzline channel" is actually the hotel's existing website channel.

### Hotel's Website Marketing is Fully Supported

Reservations are made directly on the hotel's own web site, so all marketing programs such as loyalty rewards are fully supported by the Rezzline model. The hotel's web site is readily accessible from Rezzline listings, and website content is factored into the search data.

### Guest Service is Restored

With hotels once again being paid directly by their guests, they're no longer restricted in making common service allowances when guests need to make adjustments to reservations.

## Cities Win

### Cities recoup lost tax revenue

Since hotels are once again being paid directly, bed taxes are calculated using the real value of the rooms.

## Cities can use full-featured search tools for CoC and CVB web sites

Rezzline provides APIs for third party web sites to use Rezzline's search engine on their own sites. The developer tools allow searches to be constrained to a specific city, state, or geographic area. This allows Chamber of Commerce and Convention and Visitor Bureau web sites to provide full-featured hotel searches. Since, a reservation through Rezzline is a direct sale to the hotel, the use of Rezzline actually helps the city earn additional tax revenue.

## Booking Engines Win

As the internet emerged, larger hoteliers recognized the opportunity to allow direct reservations through a web site. They had the resources to develop a centralized resource for integrating inventory and payment processing across multiple properties. Smaller brands and independent hotels, however, couldn't take on the costs of the custom development to do this.

To fill the void, companies emerged to offer inventory management with a connection to online stores and payment processing which could be readily added to a hotel's existing web site. These products are known as booking engines, and are typically offered by companies already involved in selling GDS gateways for independent hotels.

It turns out that the cost of processing a reservation over the internet is significantly lower than using the traditional GDS network which is a proprietary network used for travel reservations since the 1960s. Both hotels and booking engines save money by shifting transactions from the GDS to the internet, which is exactly what Rezzline enables them to do. Rezzline provides the booking engine vendor with a consumer-facing system to drive traffic to their higher-margin internet channel.

By using the hotel's existing booking engine relationship and technology, the Rezzline model adds no complexity to the system, and positions both partners in the hotel/booking-engine relationship to increase revenue through an increase of direct sales.

## Summary

The dominant models used today for online hotel reservations have significant shortcomings. Their inherent design creates a loss of revenues for hoteliers and civic governments, and a reduction of choice and service for travelers. Billions of dollars are being siphoned from travelers and hospitality companies by merchants positioning themselves as transaction gatekeepers between travelers and hospitality services.

Rezzline offers a completely new model which replaces the gatekeeper role of online search sites with one that enables direct contact between the traveler and hospitality services. With the simple stroke of replacing revenue from transactions with revenue from subscriptions, all the friction points which make the merchant model dysfunctional are eliminated. In particular, it eliminates the need to isolate, capture, and protect the transaction. Without the need to capture the transaction, there is no need to restrict choice to favored selections, no need to interfere with transaction changes, and search is now motivated to produce the most relevant results for the traveler instead of artificially promoted results to serve the search vendor.

In short, the Rezzline model succeeds in meeting the interests of the traveler, the interests of the hospitality industry, the interests of the cities, and the interests of a search vendor in a balanced and equitable manner for all. 🗨️



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