GRASS ROOTS
meetings and events

Commission in the hotel booking industry

Introduction

Commission has recently come under the spotlight again with Marriott's announcement that they are cutting their commission to agents from 10% to 7% in the US and Canada.

This has drawn much attention, mainly unsurprisingly from agents and clients who fear Marriott's actions may have much wider ramifications.

To understand the current commission models in play it helps to understand the origins of the model and how this has changed over time.

The history of commission

Meetings and events agencies belong to a relatively new industry but have strong links with the travel industry and take many of their business practises from them.

The travel industry was built around commission and can be traced back to Thomas Cook. The Baptist preacher struck a deal with the Midland Railway in 1841 to organise the transportation of 540 members of his temperance society. The railway would offer a train ticket and lunch for the cost of 1 shilling. For selling these packaged tickets Cook received a commission from the railway. By 1845 Cook was organising travel and hotel accommodation for 165,000 clients and created the model for today's travel industry. Since Thomas Cook's time the travel industry has grown to encompass airline travel, car hire and morphed into other areas such as meetings and conferences, all funded through a standard commission.

The roots of UK Hotel Booking Agents can be traced back to the Anand brothers whose parents owned a hotel in Earls Court. When this was fully booked they referred enquiries to other hotels in the area in return for a commission. This proved so successful that they rolled out the booking service to the corporate market and in 1972 Expotel was born. They quickly became one of the biggest players in the hotel accommodation bookings market and rapidly expanded their services abroad until financial over stretching became the undoing of the business.

In 1973 Peter Rand set up the agency Rand which focused primarily on meetings and events rather than accommodation, although it once again worked on the same commission model. Booking meetings and events remained a niche service until the recession of the early 1990s when a number of specialist venue sourcing agents started up. They had identified businesses need to outsource services and reduce costs and so offered their new found services. Most had worked in hotel conference or sales departments and had good relationships with bookers or travel managers.

In 1997 The Hotel Booking Agents Association was formed with 22 founder members showing venue sourcing had come of age. The HBAA now has over 80 agency members showing how venue sourcing has continued to grow over the last 20 years. There are many more agents who do not belong to the association and 65-70% of all meetings business is now placed with hotels through agents.

The involvement of Procurement

The standard commission model first came under question with the rise of Procurement in the early 2000s.

Before Procurement's involvement in meetings and events, business was largely won by agents through their relationship with event bookers. At this time few organisations had formal company meeting policies in place and it was not unusual for businesses to be using multiple sourcing agencies with little control over their practices. Whilst agents were for the large part providing a professional service to companies, procurement recognised a need to formalise these relationships.

Procurement also saw a financial win around the agency commission model. By driving their company's meeting business through one agent, procurement could offer them much higher volumes of bookings and in turn commission. In return procurement wanted a share of this commission.

Whilst initially this was a bitter pill for the agents to swallow it has largely worked well for both parties.

The agent does shoulder the greater risk as business volumes are rarely if ever guaranteed by the client but on the plus side procurement will usually drive booking compliance and make it easier for agents to access the book of work, bookers and to manage a greater proportion of the company meetings spend. Agents have had to become more sophisticated to win accounts and now provide much more detailed, management information and reporting, together with far better technology than before.

Most large spend (£2 million +) accounts are now operated in this way. Therefore, any reduction in commission is rightly seen as bad news for both the agents and for the companies using the agents. The extent of the reduction also potentially presents both with a funding problem.

The funding problem

In an ideal world it would certainly be easiest if the standard commission model remained.

In reality though venues pay it and so can determine what they do with it. Marriott have stated that their cost of distribution is growing at a greater rate than their profits and therefore they need to reduce their sales distribution costs.

Hotels certainly now have to work under greater cost constraints than they did 20 years ago.

One significant change has been that many hotels are now owned by one organisation whilst managed by another meaning two businesses need to make money from the venue rather than one as previously. Management or franchise fees paid by owners to brands are ever increasing, between 7%-15% of revenue. Add a further 5% + in some instances if customers settle their account with a loyalty card.

The rapid rise of the online booking agencies also took hotels by surprise and they now control a large portion of the accommodation market taking greater levels of commission - 15% or more.

The booking agency industry remains largely unregulated and it's no longer just the traditional booking agencies claiming commission but a host of other businesses including but by no means limited to PR agencies, production companies, training organisations and associations.

The future for commission

The travel industry might offer the best clue as to where the future lies.

Commission cutting by airlines began in 1995 and has seen ongoing commission cuts ever since then. By 2001 commission was down to 7% with most airlines and in May 2005 this figure was 5%. In November of the same year 16 airlines stopped paying commission altogether and were quickly followed by others. In 2008 many of those airlines still paying commission reduced it to 3% and then in April 2017 to 1%. It's important though to recognise this as base commission, with travel agents earning additional commission based on spend and market growth. Commission of a sort then still exists in travel but most of it is now paid to those travel agents that deliver volume.

These changes have unsurprisingly favoured the large travel management companies who have been able to negotiate better terms with the airlines.

Many of smaller travel agents have fought back by joining large consortiums which has given them greater collective muscle. The smaller high street travel agents who failed to adapt to this new world have fallen by the wayside. Many of the bigger agents have struggled too with Thomas Cook the industry founders announcing in December that they would be closing two thirds of their stores. This of course is not solely down to commission but also a number of other adverse factors including high street rents, business rates and the internet.

A significant difference between the airline and hotel industry is the ownership of the assets.

The decision by Marriott does not restrict franchise owners or hotels from agreeing variable commissions or dealing direct with customer groups

Conclusions

The fact that a number of travel management companies have acquired some of the bigger sourcing companies recently (Banks Sadler, Zibrant, Grass Roots) indicates that they still see good revenues in venue sourcing.

One would expect that companies such as American Express and BCD to be far sighted enough to believe that commission will remain in place or an equally attractive model will replace it and are not buying venue sourcing agencies on a whim.

Neither does Marriott's commission reduction mean that the other hotel groups will follow suit.

Marriott reduced commission to 5% within their Ritz Carlton brand several years ago but then quietly brought the figure back to 10%. This u turn was almost certainly due to the policy negatively impacting their agency business. Importantly too other hotel groups did not as feared follow suit and reduce their payments. It seems Ritz Carlton's actions actually had the opposite effect and acted as a deterrent to other hotel groups considering lowering their commission.

The truth is that the current commission model works well for both agents and their clients.

The hotel bookings industry has been built around commission and it seems unlikely therefore that commission will disappear, although there may well be changes in the way that it is paid. If change lies ahead then it's important that the hotel groups understand that any changes will potentially impact the thousands of companies that use hotel booking agents every bit as much as the agents themselves.

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