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Scale: The new secret weapon of brands

(The views and opinions expressed in this blog are strictly those of the author.)

I recently moderated a panel of owners and operators at ALIS (Americas Lodging Investment Summit) during which I asked the following question: “Is bigger better when it comes to brands?” The panelists, which included top lodging REITs and operators, debated both sides, citing recent brand consolidation as both an opportunity and cause for potential concern.

Most agreed that consolidation ultimately serves to limit the number of parent-brand options, along with owner negotiating power and likely distribution, with so many individual brands operating under one umbrella, slicing the pie rather thin in select markets. On the flip side, most agreed that the benefits of scale had the potential to flow to owners in the form of purchasing power and leverage in negotiating with intermediaries, arguably one of the single biggest threats to hotel profit margins in recent years.

In 2017, the industry witnessed several brands playing hardball with the OTAs to varying degrees of success in reducing commissions. But in all instances, fees were lowered. And, although owners had to sweat it out during the negotiation, as OTAs threatened to pull hotels from sites if a resolution was not reached, the situation ultimately resulted in a win for brands and their owners.

Fast-forward to 2018, and brand giant Marriott International already has taken steps to reduce fees in an area I covered in a previous blog, “Attack of the silent profit killers” – group commissions, which have been increasing at a faster pace than group revenue, significantly impacting profitability. As I noted then:

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"There is a heavy emphasis on strategies for shifting share from OTAs to direct bookings in an effort to reduce commissions on the transient side. But for many hotels, the cost of group commissions can be equally, if not more, detrimental to the bottom line. Across our big-box hotels, we have seen staggering increases in group commissions in 2017, with minimal growth in group rates and ancillary spend, creating a double hit to profitability. To provide a sense for the impact, group commissions for one of the convention hotels in our asset management portfolio increased nearly 27% year-over-year, representing a US$700K increase YTD through September. As a percentage of group room sales, this property experienced an increase of more than a point, representing 10% of total group revenue… alarming."

Well, perhaps Marriott has answered our prayers once again, as owners were informed of a new commission structure, aimed at lowering group intermediary compensation. Effective March 31, 2018, commissions will be reduced to 7% from 10% for all Marriott-managed and -franchised properties in the U.S. and Canada. While the impact will vary by hotel, at a larger convention hotel (800 to 1,200 rooms) with significant group business, this 3-point reduction could approximate upwards of US$1 million in incremental profit – not too shabby.

Of course, with any new initiative there are caveats, as owners now contend with the fine print on timing, existing contracts, various intermediary exclusions and other factors suggesting that the savings will not be realized entirely in year one, and in fact could be several years down the road given the longer window of group bookings. Similarly, there has already been some backlash from meeting intermediaries on this move, so it remains to be seen as to what impact, if any, this will have on influencing their decisions on where to book.

In the meantime, caveats and all, we applaud Marriott, and other major brands that decide to follow suit, and continue to flex their muscle where it matters most to owners: the bottom line.