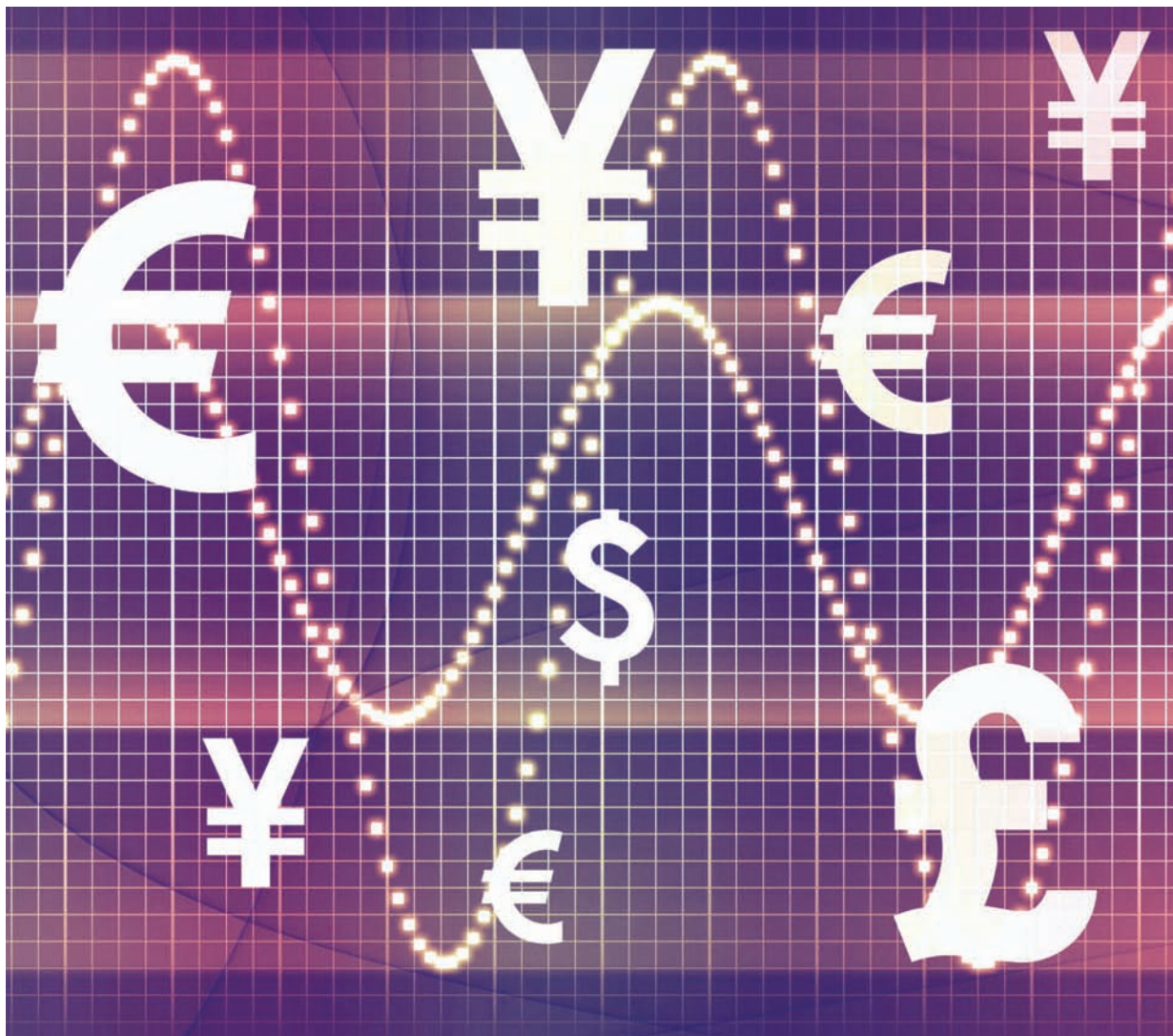


MONEY FOR NOTHING

Get your cheques for free?

Payment models in the meetings market



There is a sense in the hotel industry that many people believe that the commission model is dead.

The perception is that the concept of the free service to corporates funded by the payment of commission by venues in return for business is redundant because the 21st century, procurement-dominated corporate world demands a transparency with which commission, overrides and marketing agreements are fundamentally at odds.

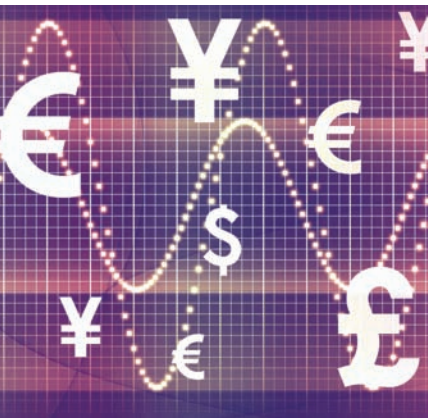
In a recession, however, is the corporate prepared to forego the risk-free option; if the market were to move to a management or transaction fee would those clients really be better off working with net rates, and in the meetings sector, just how practical is the fee model anyway? For that matter, is the free service actually free?

A survey in 2007 found a highly fragmented market for meetings, or MICE (Meetings, Incentives, Conventions and Events). The payment of MICE services was, at that time, a combination of hidden commissions (12%), transparent commissions (14%), transaction and management fees (18%) or a combination of both commission and fees.

The survey authors believed that the growing influence of procurement, coupled with that profession's passion for transparency would bring more pressure to bear on agents to discard commission as their preferred payment model in favour of fees, thereby bringing hotels and venues in line with airline inventory.

Two years on, the reality is that pretty much everybody is still working under the commission-based model, although the practice of rebating part of the commission earned by the agent is increasingly commonplace.

The venue placement agent (VPA) is one part of an eternal triangle, with the client at a second point and venue at the third. When the agency community came into being in the mid 1970's, the idea of commission was to reward agents for business by paying commission. Do venues now feel this no longer applies?



And what about this issue of transparency; can an agent earn commission and remain transparent in its dealings? Then there are overrides and marketing agreements. Agents regard these as essential to plug the gaps in the P&L caused by commission rebates, but is the client entitled to a slice of this too?

What is a fair profit for an agent to make? Presumably, somewhere along the line somebody decided that 8% should be the industry norm. Yet how can agents survive when they are being asked to invest more and more heavily in technology and at the same time pass on more and more commission to the corporate?

Why are management & transaction fees still the exception in client/agency relationships? Can the commission model ever incentivise the agent, or will the recession preserve the commission model for the near future?

In *Money for Nothing*, we will look at what payment models each of the interested parties – agent, venue and corporate – want, and whether there is one size that fits all.

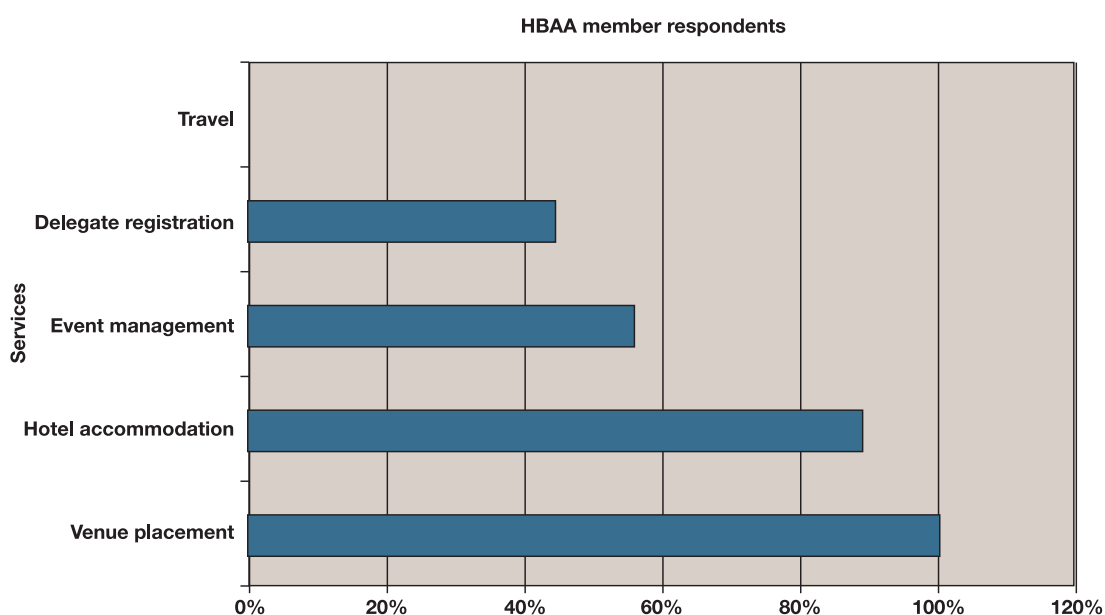


Setting the scene

Unless credited to other sources, the research contained in this document was conducted specifically for this project during January 2009, amongst HBAA members and charter partner hotels.

Q: What services do HBAA members offer?

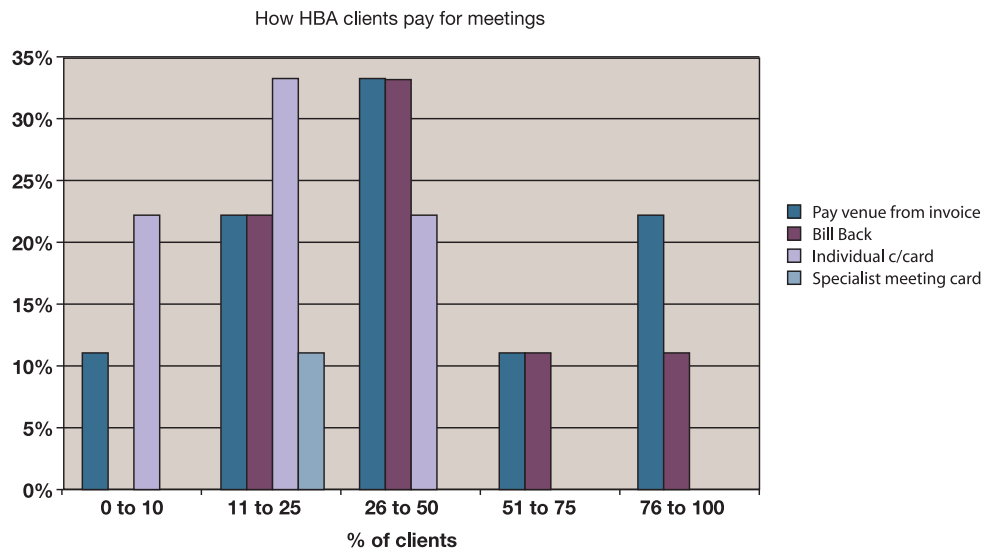
(NB. Hotel accommodation refers here to transient bookings.)



Virtually every one of the HBAA's 75 members offers both venue placement and hotel accommodation booking services. In fact, of the £1.4 billion transient and meetings spend managed by HBAA members, £250m relates purely to meetings.

50% of the HBAA members who took part in a survey for this report also offered an event management service, and a further 35% delegate registration services.

The 2007 survey by ITM found that 41% of buyers then paid for meetings services by invoice from the venue direct; 33% paid by invoice from the agency; 11% paid on individual credit cards, but only 6% paid for MICE on a specialist meetings card. Little has changed in this respect, although bill back and payment on credit card have both gained in popularity.



This reflects an increasing move to outsource payment processing to the agent, and in turn, an adoption of what has been common practice in the transient business travel sector for some years. Another trend that has arisen from procurement's increasing involvement in, and responsibility for corporate meetings expenditure, has been the convergence of transient and meetings spend, and more recently the consolidation of meetings and events expenditure.

Around two thirds of UK travel managers also have responsibility for their organisations meetings and events spend, which equates to between 12% and 35% of an organisation's total T&E costs. British companies spend almost £8 billion a year on 1.5 million conferences & meetings. Large companies spend an average £2.2m a year on meetings, whilst medium sized businesses spend an average £180,000 a year. Source: Grass Roots HBI

With 60% of all meetings held in hotels, convergence is an increasingly compelling proposition for the corporate and for the agent, who is ideally placed to provide the data and systems through which to consolidate. At the same time, this is bound to require one payment model that suits both meetings and transient bookings, at least for high-volume corporations.

Although 36% of corporations worldwide are currently pursuing convergence strategies, few have made real headway in terms of savings, policy or compliance due partly to the problems surrounding the commoditisation of meetings. Convergence is even less of an issue for smaller HBAs, dealing with un-managed meetings spend.

Procurement Methodologies

Commission – the amount paid – normally 8% plus VAT on the VAT-inclusive hotel rate for each booking received from the agent. Enhanced commission is an incremental percentage – which can be anywhere from 10% - 17% and beyond – paid to an agent, usually as part of a special promotion or agent-specific incentive.

Transaction fee - the pre-agreed amount charged by the agent for each transaction – i.e. for every single booking, amendment or cancellation - performed to achieve the booking. A transaction fee is designed to cover the agent's operational costs and includes a profit margin. In this instance, part or all of the commission received by the agent from the hotel/venue for business placed on behalf of the client is passed back to the customer.

Management fee - the fixed amount of money (percentage or flat fee) charged by the agency for providing the venue placement, transient hotel or otherwise agreed service for a specific period (per month, per year, etc.). In this instance, part or all of the commission received by the agent from the hotel/venue for business placed on behalf of the client is passed back to the customer.



Although HBAs have been booking meetings for companies for over 30 years, the strategic use of venue agents by larger corporates is still a relatively new phenomenon.

Meetings is very much 'the last frontier of travel management', and whether corporates look to the specialist knowledge of the venue placement agency, or the generalist skills of the travel management company (TMC), the choice of payment model for the meetings market is usually that of commission.

The principal reasons for this can be summarised as:

- 1 Corporate reluctance to incur financial risk
- 2 The difficulties inherent in commoditising meetings; too many variables
- 3 Robust fee models are only now being developed

Buyer requirements

One procurement professional at a global investment bank confirms that: "the use of VPAs is an evolving practice. It is doubtful that we would be prepared to pay outright until we have a more robust and accurate way of measuring their success and value in real terms. Whereas we have seen some gains in venue pricing, there are other less quantifiable benefits such as efficiency and time-savings. Value-added services such as negotiating cancellations, reviewing contracts, educational/fam trips, evaluating and recommending new venues and management reporting also need to be taken into consideration."

“Similarly, our commercial models with the VPAs are evolving. Currently commission based models are the vogue, as is having a choice of agencies - provided our booking volume is sustainable. Outsourcing aspects of the event planning function is likely to become more common provided we can limit our risk and maintain the quality of the event and the brand. “

Other corporates take a different view. Some believe that the commission model has to change “because the agent’s sole incentive is to drive spend up, whereas the client wants to reduce expenditure. A management fee is all about overheads; what it costs the agent to run our account plus a reasonable profit margin. The objective is to motivate the agent to do the job well through a combination of risk, reward and incentives.”

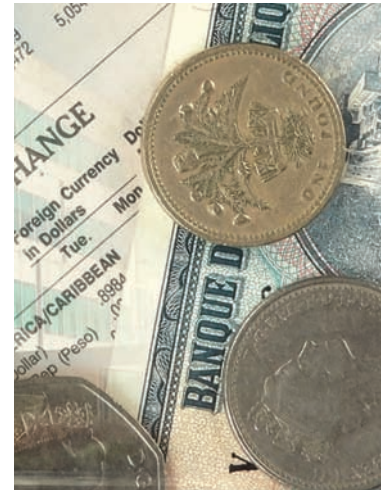
Amongst corporates, there is also a fear, associated with the commission model, that agents will move business from chain to chain according to which ones reward them best, rather than focusing purely on placing a meeting or conference into the venues that best suits location, facilities and budget. Others have worked out that a free service and rebate works out cheaper than a nett rate deal with the hotel chain.

The TMC Touch

The issue is even less clear-cut in a TMC environment. TMCs routinely charge transaction fees on a nett deal but if a booking requires a great deal of manual intervention (and let’s face it, what meeting booking doesn’t) – and is therefore deemed ‘high touch’, a higher transaction fee is charged.

TMCs have identified MICE services as a key business opportunity, not least because of the potential profits to be made. Income from hotel commissions has now outstripped earnings from airlines or transaction fees for many TMCs; 86% of agents cite hotel commissions as one of their three most important income sources, followed by airline commissions/overrides with 70% and transaction fees with 64%.

Most VPAs are paid on commission rather than transaction or management feed, which might leave smaller agents vulnerable if the model were to change because they rely heavily on personal relationships. Without a formal, contractual relationship between agency and client, it will be much harder for an agent to move to a transaction or management fee.



Calling the tune

In the commission model, another key issue is that of ‘who pays the piper?’ The agent works for the client but is paid by the venue, thereby theoretically creating a conflict of interest. The solution hitherto has been for the agent to rebate part of the commission earned to the client, which is effectively a management fee but generated via commission.



Either way, the argument goes, in a fee-based environment, the value in rates quoted by venues is clearer and there is no conflict of interests over which way the agent is facing - towards supplier or customer.

Agents regard their purpose as being to drive value by cutting costs, and in a free service/commission model usually do so by negotiating lower rates even though this delivers them a reduced yield.

One solution is for fees to be offset against commission and any residue shared between agent and client. This option gives both parties the incentive to driving meeting bookings on line to reduce ‘touch’, and to book non-commissionable budget hotels or negotiate non-commissionable hotel rates. A transaction fee is also probably better for a corporate wishing to spread the cost of the agent across its departments, and to control agency costs in a downturn.

The flipside of any shift away from the commission model is that the motivational power of the commission payment itself is diminished. As Matthew Roberts of Hilton comments, “agents appear to be retaining less and less commission and rebating more to their clients. Fee based relationships between agents and their clients appear to be on the increase in which case commission no longer incentivises the agent and is simply an additional discount to the corporate.”

In theory, in a fee environment, agents have the security of knowing that they are competing on rate, and will not lose out to a competitor offering a higher rate and therefore more earning potential for the agent. Of course, this pre-supposes that venues will charge different commissionable and net rates. The same problem surfaced when fees were introduced into the air sector.

Another consideration, frequently forgotten in the race for transparency, is that the practice of hotels paying commission to agents has proved an attractive proposition for venues too. Agents are a very cost-effective additional sales resource that effectively operates on a ‘no-win, no-fee’ basis. In return, the client receives a free service. That has to be the quintessential win-win solution. Doesn’t it?

“For as long as I can remember agencies have talked about changing to more management / transaction fees and we still do most of the work on a commission basis as always. Commissions seem more attractive to corporate clients as they are not financially committed.”

Helen Bull, Warren House

The Commission Conundrum

Although VPAs and HBAs are a largely British phenomenon, the commission conundrum is not restricted to these shores. In 2008, IMEX surveyed 100 MICE intermediaries in 11 European countries to find out how they are paid by their corporate clients for the services they provide now, and how they would prefer to be remunerated in the future.

Agencies across Europe, Scandinavia and Russia were evenly split between those who would prefer their work to be remunerated by commissions from venues, or via fees paid by clients. The cases for commission ranged from “because it leads to higher motivation and a better focus on good work within the agencies” (Germany) to “because as a business you are not so beholden to the final client” (Sweden),

However, the arguments in favour of fees were more wide-ranging. “Because the relationship is open and transparent and the agency is truly independent” (Germany). “We can discuss net prices and the best overall cost for clients” (Italy). “Each agent can value his services accordingly” (Greece). “A far better way of evaluating the negotiating strengths of the agency” (Italy) and “fees demonstrate that it is essential that agencies be paid for their time, knowledge and experience” (Spain). One UK view was that “transparency arises from fees, but it’s usually cheaper for the client if it’s all based on commissions”.

Interestingly, the Danes looked to the future, preferring fees because “I think the practice of paying commissions will have ended within three to five years”. The attractions of a ‘free’ service during times when every corporate is looking for ways to cut costs are obvious. Is that the sole reason commission remains the preferred agency payment method amongst corporates?



“I believe that an agent should act only in the best interests of their client and that an incentive reward from the option chosen is fundamentally incompatible with this. However I recognize that in the real world the current commission method is being made to work by most parties.”

Tim Chudley, Sundial Group

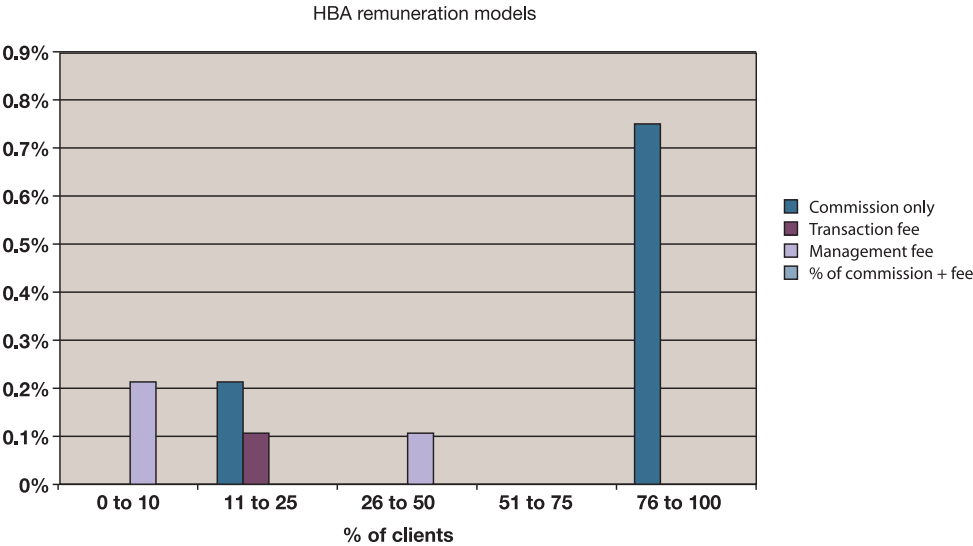
Key challenges for agents

- ‘venues that quote different rates to different agencies’ (Italy)
- ‘too many emails – we need more eye-to-eye contact’ (Holland)
- ‘working for pitches without being paid’ (Switzerland)
- ‘I would prefer that hotels give good net rates and not just high commissionable rates’ (Denmark)
- ‘too much unpaid work’ (France)
- ‘event planning times are getting shorter and shorter, and budgets are being cut and cut’ (Italy)
- ‘linguistic and cultural misunderstandings’ (Switzerland)
- ‘venues mis-selling their capacities and hotels not paying commissions in good time’ (UK)
- ‘inexperienced staff at hotels - they never listen to your needs’ (Spain)
- ‘hidden costs – these still happen’ (Germany)

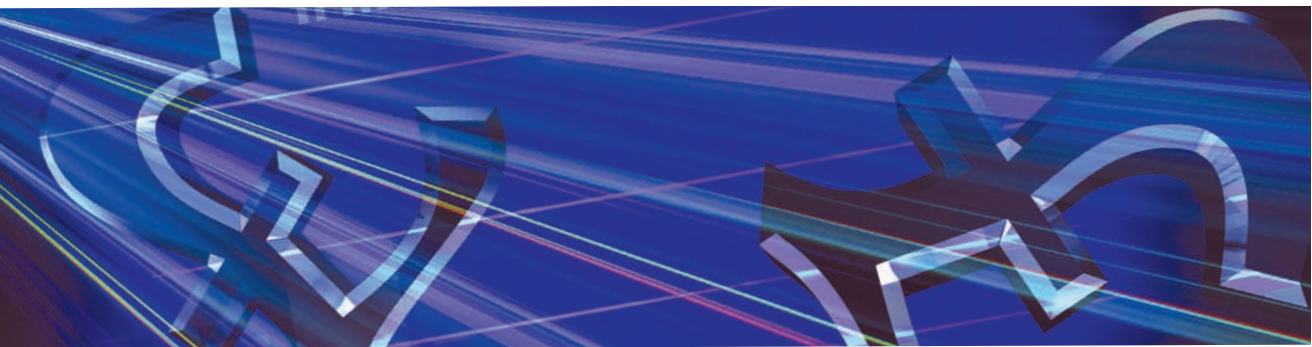
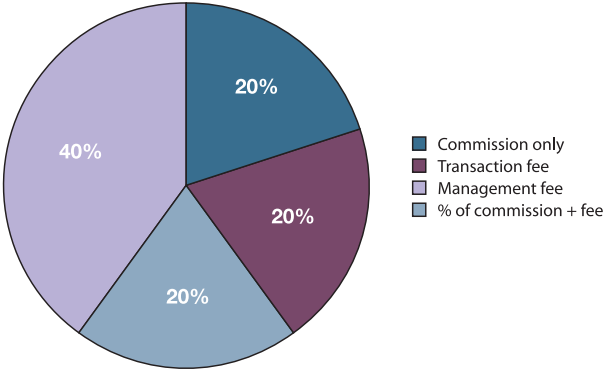
Source: IMEX Agency Agenda

Amongst UK agents, whilst commission pre-dominates, opinions are polarised as to whether, and how the market will evolve.

By definition, those VPAs operating large volume contracts encourage clients £500,000 and above towards fee models. By contrast, those with smaller accounts are content to remain on the commission model, whatever the future may bring.



Hoteliers' preferred HBA payment models



Unsurprisingly, many venue operators and hoteliers seem to have forgotten the no-risk sales resource agents can provide, and instead believe that they have had to fund the agency community for too long, and that funding should instead come from a balance between commission for more ad-hoc activity, and fees for larger accounts.

Denise Macdonald of IHG elaborates. “A management or transaction fee which is paid by the client would better reflect the modern commercial model and the appropriate relationship between the agent and the client. The end user of the booking service is paying for that service – which makes sense.”

There are, however a number of impracticalities with this. As Ian Jones of De Vere Venues puts it, “I think corporate companies fail to put sufficient value on the work their VP agency plays for them, if they paid for it as they do with travel then this might change the balance. There is still a role for commissions on business placed for SME’s for tactical offers and as an overall override to drive business into a group from an agency.”

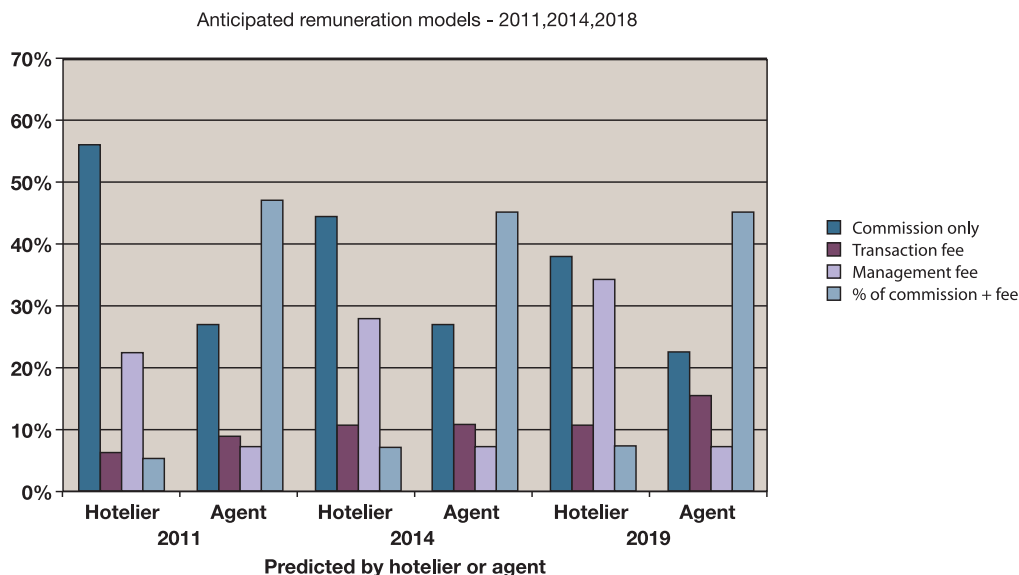
Will commission disappear?

The future predictions of agents and hoteliers varies considerably. Although overall the thinking amongst agents is for status quo to be preserved, the thinking amongst the larger VPAs is that management fees will rise significantly in popularity over the next 12 years, with transaction fees also taking greater market share, albeit at a slower pace.

The commission model is not without its risks either. If a company cuts back, and cancels a series of meetings or a big conference - as is happening in the market right now - the agent has no prospect of realising any revenue despite in all likelihood having spent a great deal of time on the enquiry. Many agents are currently working very hard on behalf of their clients, negotiating with venues to mitigate cancellation fees. A complex and specialist task for which they are being paid nothing.

“It will be up to the agents to keep a commission model in place. We should all stand firm to ensure that the venues recognize the role that we play in bringing business to the table. Venues will continue to buck against it but in the current climate, it suits them and they need our support, they are willing to pay increased commission for our service.”

Juliet Price, Hotelzon



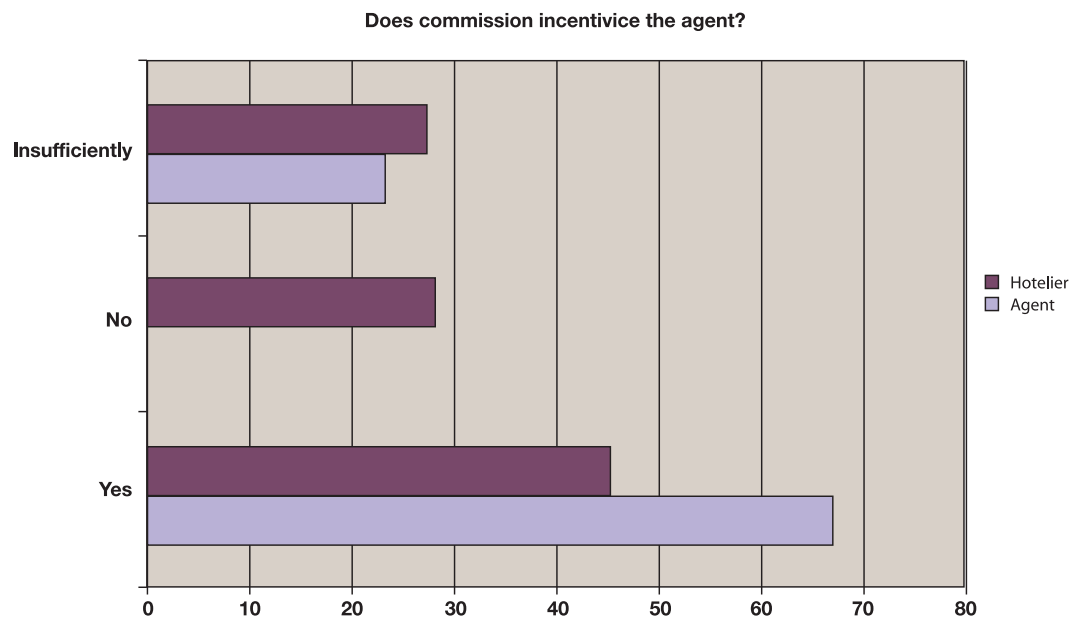
There is a case that as long as hotels are prepared to pay commission, clients will predominately be commission based, and that only if the goal posts change significantly within the industry or a client specifically wanted a transaction/management fee basis that this model would be adopted across the board.

Trevor Elswood, of BSI offers a different perspective. “One of our key growth strategies has been to penetrate traditionally unmanaged spend to generate significant growth in our commissionable-only business which five years ago would have been management and transaction fee dominated. Some large international and UK national companies will migrate their business to more transparent fee models, but one should not then assume that this should be intertwined with whether commission would or would not be a key driver. Both agency and client will look to balance price reductions with a fall in commission income; in other words nett cost”

“As the growth in best available rate continues and the fragmentation and complexity of brand and hotel ownership intensifies, commission will play an important part in the 'value' calculation of venue and accommodation providers by both us and its customers.”

“I believe that if the agent is focused on long-term client retention the commission model absolutely works because we are challenged to add value and show incremental savings. The argument that higher rates = higher commission has never been an issue for our business strategy.”

Julian Laxon, Pro-Ven



A real incentive?

With rebates increasing in frequency, volume and cost to the VPA, does the commission model provide an real incentive to provide a free service? Most, if not all agents would say that it does, but 23% of agents do not believe it does so sufficiently.

The use of ‘incentive’ in this context is somewhat emotive. VPAs policy is that client choice of property is paramount – the level of commission should not be the primary factor – and that in a commercial relationship, commission should be irrelevant. As long as a venue meets the booking criteria, however, VPAs should always choose a venue that pays commission over one that does not.

Commission is a major income-source for most VPAs, and is therefore a business driver too. In both transaction and management fee models, the potential to offset the agency service through repatriated commission is a key differentiator between TMCs and VPAs. Customer retention and customer acquisition as a result are incentives in themselves.

From a client perspective, the question is whether commission incentivises the agent to negotiate the best rates for the client. However, as Dean Vitellozi of CCD points out, “only agents not into long term business relationships would fail to negotiate the best possible rates for their clients. However, for absolute peace of mind for the client the commission model could work in tandem with a gain-share agreement based on rates achieved.”

Once again, venue operators have different views on this issue. Some regard as 8% commission as fair reward for bookings that might not have been generated by direct sales, but are less happy when a corporate books direct at a special rate and the agent then takes over the booking. In this scenario, the venue thinks that it should not have to pay an additional agency commission for booking it already had.

If the standard 8% commission provides an incentive of varying effect however, what about enhanced commission paid as part of a special promotion or negotiated by the agent?

Annie Jones, of Forestdale Hotels believes that “an increase in commission does incentivise the agent, particularly when the current economic climate is driving rates down. Offering standard commission rates on lower selling rates subsequently drives down commission returns, so an agent being offered an increase in base commission levels would naturally lean toward the hotel offering the incentive. The key caveat to this is that most agents will still direct a client to the hotel, which best suits their need. The increase in commission incentive will come in to play when several hotels can fulfil the client needs sufficiently.”



How many clients working on a commission basis receive rebated commission, and what is the average percentage of commission rebated?

% of clients receiving rebates	0 - 10% (average 2%)
Minimum size of client account receiving rebate	£150k - £2.5m
Average % of commission rebated	2 - 30%



“In the long run, agents need to protect themselves, but this isn’t the same as when the airlines cut commissions almost overnight. Commission isn’t going to disappear in the next 3 – 4 years, so this is not the same scale of issue that the TMCs faced.”

Nick Hurrell, Hotelscene

Although in larger VPAs, up to 90% of clients could be operating on a declared commission basis, (the agent deducts transaction fees from commission, and whether this ends with a rebate depends on what level of non- commissionable have been made), in the wider VPA/HBA community, the figure is much lower. That said, VPAs are rebating anywhere between 2 and 30% of commission earned.

Some do not charge for services such as payment processing and provision of detailed MI, rather than offer rebate and then charge for those additional services. Others do not rebate to their clients because they prefer to work on maintaining the lowest possible rates, thereby reducing margins and scope for rebates.

To fee, or not to fee

Transaction and management fees have infiltrated hotel & meeting payment models from the business travel sector, where they were conceived to bring clarity to airfares. Today, transaction fees are used mainly for transient hotel bookings rather than meetings or events, due to the complexity and many levels of touch routinely involved in a single meeting booking.

In January 2009, former HRG boss Mike Platt told ABTN that “transaction fees are not practical for the meetings intermediary, simply because of the variations in what a single transaction could involve.”

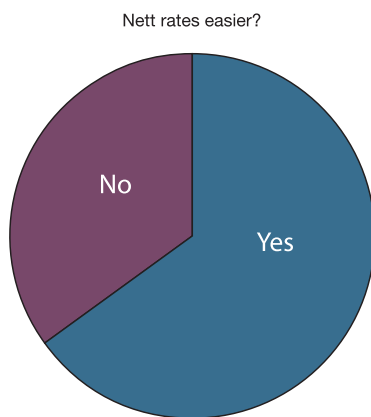
He continued: “since paying by transaction became the new way, it has bred new methods for TMCs to present their costs and different yardsticks for corporations to measure against price. The thinking behind the concept is that surely more transparency will prevail but the opposite is more likely. This method of buying travel has created a new language in transaction definition with words such as bundled, unbundled, no touch, low touch, high touch, managed, and unmanaged, to name a few. So, instead of a corporation being confused about what they are actually paying for in a management fee, they now should be fretting about what kind of transaction they need as the cost can be considerably different.”

The counter to this argument is that, to be truly recognised and valued for the professional meetings management services they provide, agencies must be able to charge for their services. Des McLaughlin of Grass Roots HBI explains. “Every major account on our radar involves some element of remuneration through commission, and although I can’t see that changing in the current financial climate, what is clearly needed is for a cost to be put against the service provided. What clients have to evaluate is whether a management fee is actually the best way to pay their agents. In reality, would a venue genuinely reduce its costs by 8% in return for a nett rate? “

"Management fees offer the only true transparency model in my opinion. All parties know exactly where they stand in charges and who is paying for what. This model also requires an agency to prove their services are of more value than just sourcing and booking a hotel which with the internet explosion in hotel booking websites, anyone can do now with some ease."

Once again, one size does not fit all. For example, Hotelscene has no clients on management fee, as Nick Hurrell explains. "Management fees are based on the cost of the service plus a profit element. We prefer transaction fees which remunerate an agent based on work done." The same applies at Hotelzon, Juliet Price declaring, "A management fee for meetings business is unnecessary and can lead to a complete lack of transparency."

Nett rates



Venue operators have differing attitudes towards nett rates too, with a third viewing non-commissionable rates as being no less difficult to administer than commissionable ones.

One reason for this is differing commission rates for different agencies, but Hilton's Matthew Roberts says that although rates are no easier or harder to administer "there is a lot of wasted resource when you have suppliers processing commission payments for agents who then need to reconcile and rebate to corporates. Why not cut out the cost of processing which would represent a process saving for both suppliers and agents, the value can simply be passed directly on to the corporate client through price."

Others simply believe nett rates are easier to administer as they more transparent and reflect the true state of the market. They contest that it is easier for hotels to manage nett rates in their booking systems than having to pay commissions and it makes communication with the hotels much clearer and simpler.

"Where a client is using us for accommodation and travel, we are using commission on the accommodation to offset the transaction fee on travel. Although we have one large client who is on transaction fees for conferences, there has been no real shift in that sector. Between 5% and 10% of our clients are using a non-commission based costing model, against 2% to 3% three years ago. And that will continue to grow."

Douglas O Neill, Inntel



Transaction vs. Management Fee

The respective popularity of transaction and management fees varies. Management fees are less attractive than they originally were, offering less transparency than the transaction fee. The proportion of corporates remunerating their HBAs for transient bookings solely through management fees has dropped from 25% to 20% since 2005; however, there has been a bigger drop in the proportion of corporates paying their TMCs this way – from 49% to 29%.

Typically, in a large HBA around 95% of transient business will be on a management or transaction fee. Transaction fees are growing in popularity due to the use of self booking tools for company-wider meeting programmes, to which transaction fees are ideally suited, and the ease with which the fees can be re-charged to individual cost centres, thereby enhancing transparency.

So how should a management fee work, and be calculated? Although some clients will have a high spend but a (relatively) lower number of transactions, others will have an equal spend but with far more transactions, so cost models will vary. The complexity of the transactions needs to be considered too when calculating fees, as does the projected conversion and amendment levels.

Most VPAs now follow a consistent model, so fees based on the traditional percentage of spend should – with time – become a thing of the past.

Management Fee model

- Number of transactions including bookings, amendments and cancellations
- Booking patterns
- Method(s) of booking, levels of automation & manual 'touch'
- Payment method & cycle

= Operating cost of the account
+ Agent's profit margin

= Management fee with/without gain share incentives

All client-specific income from all standard commissions collected is returned to the client, the fee estimated for a twelve month period and reconciled quarterly.



An additional consideration for VPAs keen to expand their service portfolios is whether the booking requires any element of event management. If it does, this introduces the additional dynamic of hourly or daily rates both pre-event and on-site.

There are many variables, but Matthew Roberts of Hilton sees no reason why agents should not adopt menu-style pricing. “Broadly speaking there is Booking Fulfilment and Consultancy Services. Agents should have competitive menu pricing for all services they provide under these banners,” he says.

Quantifying the value of the agent

One of the cornerstones of the argument in favour of the fee model is the ability of the agent to quantify the client’s return on investment (ROI).

The key measures commonly applied are average rate (compared to the previous year or against the market in general); compliance to booking preferred programme venues via the designated agent, and cost of service. In a bespoke service industry such as the meetings market, the driver for most larger VPAs is performance against agreed objectives. This can include online adoption, use of internal meetings space, reduced stay length, and cost avoidance initiatives such as video conferencing.

Smaller VPAs, by contrast, focus on client satisfaction levels, volume of invoices handled, other activity such as cancellation charges, savings and added value such as the training of their operational teams.

Ian Jones of De Vere Venues says that this is where agents “need to start to become more like consultants, looking where they can add value to a business. The less sophisticated agents tend to harp on about the one stop shop and free service, whilst the larger one have invested time effort and money in looking at the time they invest, the knowledge and business improvement they offer and the money they are able to save by centralizing spend. This is not a simple calculation; it is a series of complex algorithms that will provide the corporate customer with a dashboard report showing cost savings and reductions and overall business benefit.”

“Assuming that the agent has invested in robust technology and has excellent supplier relationships, the value to their client would be the service delivered to the customer; destination and property expertise; one stop shop for multi property searches; transparent rate negotiation; clear, accurate and timely management information, and enforcement of procurement/travel policies.”

Denise Macdonald, IHG



What is a fair profit?

As anyone who has ever spent more than six months in the hospitality, travel or meetings industries will tell you, one size never fits all.

Few agents – and even fewer hoteliers – can agree on what constitutes a fair profit for a VPA to make. The reality is determined by factors such as technology and online implementation with customers benefitting from lower fees with less reservations ‘touch’; the overall value proposition.

“More profit should be obtained from the client requiring the services, and less profit made from the venues. I would like to see agents and hotels working more closely together to approach clients for their business to the mutual benefit of one another.”

Catherine Whittle, The Vineyard and Donnington Valley Hotels

Those VPAs still operating predominantly on commission models regard 8% plus VAT as sufficient to live on, mainly because they do not have IT or sales functions to finance. As a yardstick, middle-ranking VPAs are prepared to accept a 2.5% net profit on net turnover based on achieving the targets in the client service level agreement (SLA). Or put another way “in line with that enjoyed by the corporate.”

It is the principle of a fair price for a good service, and in many respects agents and corporates should concern themselves more with the retail price than the net profit of the services being procured.

However, once you set a benchmark and establish the accepted convention that a VPA should make a certain % profit, it will not be long before someone else claims they can do the same job, more cheaply. Then there are the regional issues too; should agents based outside London be able to charge less than those in London?

“The competitive market will find a way to set the level of fair profit. It would not be in the best interests of the industry for a standard to be set.”

Tim Chudley, Sundial Group

The marketing agreement

One issue that can be relied upon to muddy the waters of the commission vs. fee debate is that of overrides; the retrospective payments made by some venue chains to agents, over and above the basic commission rate, once pre-agreed targets of business have been reached. In the TMC world, these are often referred to as sales & marketing agreements.

Agents regard overrides as providing the income to fund IT developments, staff training, and account management, so the income they provide is re-invested to deliver a quality service to the client. The income is not usually hidden away either, and although it is virtually impossible to allocate any proportion of an override to a specific client, any responsible agent will allow for overrides when preparing a client P&L.

At a time when venues and hotels are under pressure to reduce distribution costs, attitudes towards override payments amongst this community are surprisingly supportive – with some caveats.

Some operators believe agents take overrides for granted and as additional commission to be budgeted, with no directing of business to the preferred partners. However, those agents with well thought-out & limited partner programmes overrides can help build a stronger mutually beneficial relationship, although these partnerships are diminishing as the recession deepens.

Overrides & transparency

Do overrides stop you being transparent?

	% of mix
Yes	42%
No	58%

VPA's are very aware that overrides can be perceived as hampering transparency, and are therefore quick to point out that many sales & marketing agreements are based on providing resources for training, travel, marketing and so on. However, as one VPA explains, there could still be a communication gap.

"It's not so much the direct rewards that prevent VPAs from offering transparency, it's the add-ons such as marketing funds, complimentary room deals and contributions to team rewards that are dictated by the size of an agency. Are these ever explained to the client?"

The fact is that the necessary clarity is in place. Agents have open book accounting arrangements with their clients who can see override and commission revenues associated with their business. It is also recognised that the benefits of the override belong fully to the agent. If clients were entitled to a share of the override there would also be a strong case that the client should also agree to share the risk if volumes drop and the agent loses revenue as a result. Realistically, however, this is unlikely to happen, and could become very complex if it did.



"They are critical for driving demand into your group, most standard commission paid against individual bookings is rebated to the corporate in some cases this rebate is as much as 70%. Without the override the agent would never make any money out of their key contracted clients."

"Overrides are a very effective way for suppliers to recognize and reward selected agents for their loyalty and market share shift. However, a problem that has arisen over the years is that the overrides are no longer selective or the suppliers preferred – this diluting the value for both parties."

Changing Times



“The need for flexibility in, and personalisation of remuneration models has never been so apparent. Market conditions, competitiveness of markets and customer segmentation will all define and shape change.”

Trevor Elswood, BSI

The industry consensus is that change will come; the issues are the degree, and speed at which the switch to fees takes place. It will take time, because this will be a huge step-change here that will needs many disconnected parties to take the same steps at the same time – no easy task!

Agents will need time to create a value proposition for their clients to justify the fees; the change will be gradual as agencies transition their clients over time, and probably lose some along the way. Venues may again become bullish over commission payments once the current climate changes, no longer seeing an 8 or 10% commission as a cost efficient sales channel and instead giving corporates the choice of paying an agent to manage the process or doing it themselves.

Amongst the venue fraternity, Annie Jones of Forestdale Hotels believes that the current economic climate will do the most to drive change. “The consolidation of SME agencies into larger agencies and the possibility that some smaller agencies may go out of business due to the downturn will mean that agencies can no longer forecast their commission payments. To stay in business will require a fee structure where payment is guaranteed to some extent.”

In terms of how a change in remuneration models towards fees affect the agent/client, agency/hotel and client/hotel relationships, the views of the major chains are quite similar.



Ian Jones, De Vere Venues

- Agent/client I hope that the client will value the service more because there is a cost attached to it. It could also lead to more system and IT developments, as the corporate will be paying for these as part of their fees.
- Agency/venue We still need a mechanism to drive demand to our venues. It is no good to say “its all about relationship” because you can have the best relationship but the minute you pull the override or cut commission, it’s gone!
- Client/venue Personally I don’t see much change although a commission free environment will lead to calls to drop rates etc.

Denise Macdonald, IHG

- Agent/client As the client would no longer be receiving a ‘free’ service from the agent, this may cause some initial resistance from the client – but it does put a “value” on the wonderful service that the agents give to their clients – for which the clients must pay.
- Agency/venue The agent works for the client and the dynamics of the agent’s relationship with the hotels does change. Many of the current relationship challenges are around commission payments, so venue/agent relationships should be smoother with the removal of commission.
- Client/venue This relationship should remain unaffected, as it is only the booking side of the process that has changed, and the agent handles this. The client will continue to be a client of the supplier as well as a client of the agency and co-relating relationships between the three parties.

Matthew Roberts, Hilton

- Agent/client Client knows he is paying for the agent’s services and therefore the agent should be delivering to the client’s expectations
- Agency/venue Venues have the security of knowing there is no hidden element of value in the competitive bids for business. So if we quote £100 per room and a competitor quotes £110, when all other factors are equal ours is the better offer.
- Client/venue The client is likely to achieve better price



**Jackie Boughton,
Wembley Stadium**

However, the enthusiasm for fee models amongst the larger chains is not shared by smaller and one off venues, as Jackie Boughton from Wembley Stadium explains. “Should the model change significantly and head towards a more complicated remuneration process, the larger groups who are able to administrate and financially embrace the preferred model will dominate the agencies. As a result the independents and smaller venues will lose business as they will not be able to compete with a simplified structure of fee.”

The future

According to Des McLaughlin of Grass Roots HBI, “something has to give with the commission model. When companies like HBI were formed, the industry norm was an 8% commission. However corporates with large spends have negotiated commission rebates in return for volume commitments, whilst we have to do more for less money. Account management, IT developments, preferred and consolidated programmes are all relatively new facets of meetings management that require substantial investment. This can only be funded if you have large-volume client accounts, and yet most contracts do not guarantee forward business volumes.”

“Agents and venues are both at the beck and call of the corporate buyer. We need a drive from a collective of corporate customers to say ‘I would like to see what the difference is between my rates commissionable and non-commissionable’. From there they can make an informed choice and begin to drive some change and improved transparency.”

Ian Jones, De Vere Venues

How smaller VPAs will fare if, and when the shift to fees takes place, is a matter of conjecture. Will there be sufficient un-managed corporate meetings expenditure to maintain those who purely provide a venue sourcing service? Will they be restricted to dealing with those clients who only want this aspect of meetings management?

Despite the financial crisis, and a belief amongst the agency community that the near future is very challenging, the outlook for the corporate sector is a lot brighter than it is for leisure. Many agencies realise that the future is what you make it: no risk, no reward. And many clients who previously organised events in-house are now deciding to outsource again.

Smaller agencies with lower costs should continue to do well. Every challenge brings with it an opportunity; there are the efficiencies and cost savings that the internet can bring, and the growing requirement that all businesses must try to operate in a more sustainable way.

The bottom line is that many clients like the commission model and most venues do not. Most agents would work with either model if their clients wanted them to, or if the fee models were properly calculated.

How to add more value?

Despite divergent views on aspects of the remuneration maze, agents and hoteliers are agreed that there is a great deal of educating to be done amongst the corporate sector as to the true meaning of the free service offering, and the comparative merits of the fee model.

When all is stripped away, the debate is really about open and honest business practice – transparency.

Acknowledgements

Interviewees

Sue Prosky, Axis Venue Experts
Trevor Elswood, BSI
Dean Vitellozi, CCD Conference Reservations
Ian Jones, De Vere Venues
Annie Jones, Forestdale Hotels
David Taylor, Grass Roots HBI
Matthew Roberts, Hilton Hotels
Denise Macdonald, Intercontinental Hotels Group
Nick Hurrell, Hotelscene
Juliet Price, Hotelzon
Jonathan Ashley-Cowan, PHR
Julian Laxon, Professional Venue Solutions
Tim Chudley, Sundial Group
Ian Thomas, Thistle Hotels
Pat Hodgkinson, Venue Choice
Lorraine Brown, Venues for Business
Catherine Whittle, The Vineyard & Donnington Valley hotels
Helen Bull, Warren House
Jackie Boughton, Wembley Stadium

Sources

www.abtn.co.uk
www.btonline.com
Business Travel World
Buying Business Travel
Hotel Bookings Agents Association
IMEX
Institute of Travel Management
Net Trans
The Business Travel Magazine
Travelmole



About the HBAA

The key objectives of the HBAA are:

- Promoting best practice for those involved in the procurement and provision of accommodation, meetings, conferences and events
- Providing a framework for recognised personal professional development within the industry
- Encouraging and nurturing innovation that will advance the industry
- Ensuring that the HBAA is the voice of the industry, promoting the interests of its membership
- Continuing to develop opportunities to provide formal and informal business networking for members
- Ensuring that the HBAA is recognised as the primary source of expertise for the corporate MICE and travel professionals and other individuals seeking to understand meetings, conferences, events and accommodation.

www.hbaa.org.uk

About the Author



Mark Harris has been a communications specialist in the business travel industry since 1990 and is a partner in Travel Intelligence Network. TIN publishes the annual Meetings Industry and Serviced Apartments industry reports, white papers and yearbooks, as well as organising, raising sponsorship for and running industry events. In 2008, he was appointed Partner & Sponsorship Director of Business Travel Market, following six years as Head of Marketing for ITM, where he ran the association's annual conference. A former Marketing Director of Expotel and First Option, Mark was voted the Business Travel Industry's Personality of the Year in 2006.

About Travel Intelligence Network (TIN)



Travel Intelligence Network is a specialist marketing communications company for suppliers, intermediaries and media owners in the business travel and meeting industries. TIN publishes the annual Meetings Industry and Serviced Apartments industry reports, white papers, client magazines and yearbooks, and organizes forums, seminars and social events. TIN is also the official sponsorship agency for Business Travel Market and the Hotel Booking Agents Association. In 2008, TIN created the industry's first interactive jargon-buster, www.traveljargon.org. TIN is owned and run by Maggy Sainsbury (ex-Diageo, Unisys & BA) and Mark Harris (ex-ITM, Expotel and First Option). www.the-tin.com