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Building Community

MCI THOUGHT LEADERSHIP:

**GROUP
COMMISSIONS**

Is **7** the New 10?

What the reduction in the hotel group-commission rate means — for meeting planners, attendees, third parties, and hotels themselves.



Robert A. Gilbert,
CHME, CHBA
President & CEO,
Hospitality Sales &
Marketing Association
International

HISTORY LESSON

The Beginning of the End of the 10% Solution

When Marriott International announced in January 2018 that it was reducing its commission rate for group business from 10 percent to 7 percent, it brought to a boil a debate that has long simmered among hotel companies, meeting planners, and third-party intermediaries — about value, accountability, and more. As a third party providing a variety of intermediation services to clients around the world, MCI Group is a part of this debate.

In a series of Thought Leader interviews with our global talents, we explore, challenge, and potentially upend the group-commission model. Our first interview is with **Robert A. Gilbert, CHME, CHBA**, president and CEO of Hospitality Sales & Marketing Association International (HSMIAI), one of MCI USA's full-service Association Solutions clients. As both an experienced association executive and a longtime member of the hotel community, Bob is uniquely positioned to explain the history and evolution of group commissions.

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How did group intermediation become such a major part of the hotel and meetings industries?

If you go back to the origin of intermediaries that have been a source of business for hotels, you go back to the origin of travel agents. That's really where it started. Travel agents — the first ones were actually back in the 1700s — represented themselves as agents on behalf of hotels and they got a commission paid by the hotels for their services. Those travel agents began to migrate into group business in the 1960s and 1970s.

American Express was the first to do that, but then group intermediation for hotels really hit its peak when a company by the name of HelmsBriscoe was the first to provide that service at scale for the hotel industry. That was the only business they did — book businesses hotels on behalf of meeting-planner clients — and from that point forward, there were multiple others that copied the HelmsBriscoe model. There are big companies, and then there's a long tail of independent planners that tried to do the exact same thing for the same amount of commission. And that's what has grown group intermediation to the size and scale that it is today, where 50 to 70 percent of hotels' group business is coming through a third party.

What I think has brought this to a tipping point is that hotels continue to optimize their revenue but also look at the growing expenses they've had. They've begun to question the value of the services provided by these intermediaries, and they've realized by analyzing their own mix of business that not all intermediaries are providing the same level of services for the flat 10-percent commission.

When did the 10-percent model come to dominate this space?

The 10-percent model has been around forever. That was the original travel-agent commission that goes back 100 years. As an agent on behalf of a hotel, somebody at some point in time agreed that 10 percent was a fair price, and when companies like American Express Travel began to migrate into group business, they just used that same 10 percent. And nobody has ever deviated or questioned it until it's reached the scale of business that's

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— Robert A. Gilbert, CHME, CHBA
President & CEO, Hospitality Sales & Marketing Association International

represented now — where the expenses have become so huge, hotels have begun to question, “What's the value for these services?” Because they're seeing different levels of services being provided by different types of third-party companies.

From the hotels' point of view, a big part of the problem is that third-party intermediaries are providing a wide range of services for that same 10-percent group commission?

Correct. You have some intermediaries that are simply providing lead generation, which is where the original model started out. At the other end of the spectrum, you've got full-service meeting-planning companies, like an Experient and a Maritz and others that do strategic meetings management for a corporate or an association client. And they're all getting the same 10 percent. That's where the discrepancy is really beginning to surface: How do we differentiate between these companies when there's just so many of them now?

In other words, for a single piece of group business, multiple intermediaries are taking 10 percent from the hotel?

That's where many of the challenges have arisen. Sometimes multiple companies get into the booking or the production cycle of the event, so there have been a lot of gray areas in terms of who's really entitled to the commission based on what they do.

How do you see things proceeding from here?

I think different hotel companies are going to make individual decisions on how they value

the services provided by different types of intermediaries. That's the normal evolution of any business model in any industry: Every service provided in the food chain begins to articulate their role in the value proposition, and some parts or functions will have a higher value than others.

What might a different model for group commissions look like?

I think there's room for multiple models. There's room for different types of intermediaries to begin pricing based on the specific components of their services. Another opportunity would be for some type of a registration, accreditation, or classification system for different types of intermediaries. That would help anyone in the supply chain of the meetings industry to understand what an intermediary's primary scope of services is — so everybody knows their role at the time of contracting. That disclosure — that transparency — is really important for all parties.

Is there something that everyone involved in this issue — hoteliers, planners, third parties — should keep in mind?

At the end of the day, what everybody should keep in mind is the fact that the client — whether it's a corporation or an association — is the ultimate customer, and achieving a successful event for them has to be core to whatever processes or best practices are established by the industry. The minute that a third party or supplier loses sight of what the customer is trying to achieve, we've done everybody a disservice. That's the one thing that's going to be critical as this discussion continues to evolve. ●



Richard Torriani
Chief Operating Officer
for the Americas,
MCI Group

A BROKEN MODEL

The Death of the Citywide: Reality and Illusion

With our first MCI Thought Leader interview on group commissions, we explored the history of third-party intermediation, including how 10 percent came to be the default commission rate for group bookings, why Marriott cut its rate to 7 percent, followed by Hilton, IHG, and Hyatt, and where things might go from here for citywide events. Within this context, “citywide” is an industry term for a mega event with large room blocks that primarily uses a city’s convention center while hotels mostly provide guest rooms without meeting space.

In this latest MCI Thought Leader interview, **Richard Torriani** — MCI Group’s Chief Operating Officer for the Americas — explains the impact on the citywide business model for group commissions, especially the new 7-percent rate, which he thinks offers the illusion of cost savings to hotels but doesn’t match the reality of the business model.

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How does the reduction in the group-commission rate affect a company like MCI?

For me, the primary consideration is that while I'm sure that the hotels did lots of cost-benefit analysis when deciding on changing the remuneration model around commissions, they didn't really consult with the overall industry. For whatever reason, they decided to do that in a vacuum, and because of that, we're now faced with a situation where all intermediaries — regardless of their place in the value chain — are treated equally.

For the citywide model, that means that we've lost 30 percent of revenues. But we still have all the work that we used to have to do, including sourcing, contracting, marketing, selling, service center, managing the finances, paying deposits, managing individual transactions, providing rooming lists, providing updated rooming lists and change requests to hotels and to groups, and handling the call center for our delegates up until the moment that they check out. So basically, we have a 30-percent reduction in revenue but a zero-percent reduction in work.

If the hotel chains think that anybody in the citywide housing market is running at 30-percent profitability, then they might be interested in a nice little bridge for sale. The reality is that we all operate at low margins, and both the housing companies and the associations simply cannot afford to finance and operate this service for delegates and groups in the future. At 7 percent, the housing bureau — the citywide model — is dead unless there are changes.

What might some of those changes be?

One, housing bureau companies like us could be more efficient, sure. At the same time, we've been pursuing efficiency for the last 20 years. We have more technology than ever before to manage this process, but it's still a very labor-intensive system. A percentage of that gap might be closed with some efficiencies as long as people switch to more self-service — right now delegates email, call, or message our call centers to modify or cancel their hotel reservations — but with that high level of service availability, it's really difficult to see how we get to 30-percent greater efficiency without significantly impacting quality perceptions.

With our objective and the hotel's objective to offer superlative service to delegates who want to book an individual hotel, they need to get as good as or better than if they're going to an OTA [online travel agency] or directly to the hotel. We've got to see if we can reduce services to delegates and still be competitive in a purely transparent marketplace. We know from our own research that 86 percent of delegates that don't book with a housing bureau book through an OTA and not through the hotel direct channel. This means that the 7-percent commission model is simply an illusion of costs savings, as the most likely alternative is for delegates to book through OTAs that charge significantly higher levels of commission.

It could be helpful to everybody to consider the efficiency of the entire value chain. We spend an inordinate amount of time contracting hotels. It's ridiculous, because it should

simply be a question of asking for an allotment and a rate and then signing. In reality we spend most of our time negotiating the contract, which serves very little value and adds frustration and enormous barriers. On our side, it's a lack of efficiency, but on the hotel side it's a lack of efficiency also, because wouldn't it be better for everybody if their salespeople were out selling new business rather than spending time contracting business?

For instance, the use of global contract templates would significantly facilitate that, so that we're not spending time discussing the force majeure clause when generally speaking that clause should be pretty standard in this industry. Even within a specific hotel chain, we see radical differences from hotel to hotel. Standardization and removal of barriers would help, but that is not enough to close the 30-percent gap. We can get a couple percentage points of efficiency, but it's still not getting us to absorbing the 30-percent deficit of revenue we presently have.

So it's not just about everyone becoming more efficient?

I think we have to look at who's providing what services, partially as a differentiation from the sourcing-only guys. The sourcing guys get the same commission as a housing bureau, but they usually don't do the contracting, and they don't provide any of those other services we talked about either. If the hotels are giving 7 percent to both of us, shouldn't it make sense that we should charge the hotels for the additional work that we're doing — and which, by the way, would be work they would have to do if we weren't doing it? Maybe the new model is that we should charge the hotels for our services?

What else might work?

Well, a third different model to close the gap is to charge the delegate — to say, "Well, delegate, you are reserving through us, and because of that, you need to pay a handling fee for all the work that we're doing in the name of the hotel." If you think about it in reference to travel agents, in essence that's where their model ended up. Travel agents began to charge for booking, and people would pay to book a ticket, and they offered some level of service

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Chief Operating Officer for the Americas, MCI Group

against those fees. You could dial a 24-hour help center in case you had issues during your flight, etc.

Now we're essentially in competition with OTAs, and OTAs are not charging handling fees for their services. In fact, they are in essence charging the hotels a higher commission than what we get. They're getting significantly higher than 7 percent, even from large hotel groups. The notion of OTAs getting a higher commission is already a de facto recognition of the fact that they are considered to be offering a service to the hotels — marketing and distribution — and the hotels have agreed to pay for that. One of the things that has to change in contracting going forward is the recognition that the world has changed in the last 10 or 15 years around transparency and distribution.

But to what extent are OTAs a factor when it comes to group business?

It's always in comparison to what individual travelers have available to them. The huge volume of OTAs has changed the purchasing behavior of people and the immediacy of their needs. People only reserve their rooms days or maybe weeks in advance. We know that; the hotels know that. Why are we holding associations to a corporate-style contract — locked in weeks, months, years in advance — when we don't do the same thing for individual travelers? Because individual travelers would not accept that. I mean, the industry just made a big deal in transient bookings about maybe moving to a 48-hour hold rather than a 24-hour hold, clearly rigid group contracts with huge attrition risks that kick in hundreds of days in advance no longer reflect the reality of the market, yet hotels are very reluctant to move away from that found money.

The hotels claim risk mitigation for that: "It's because I gave you 100 rooms out of my 200 rooms." But if they hadn't sold it to a group, they would still have had to sell it,

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Chief Operating Officer for the Americas, MCI Group

and they would still have had to sell it in that window that people are buying — 30 days or less before check-in. Hotels' group contracts have to properly reflect the buying behavior of individuals, because if they don't, why be part of a group at all in the future? What's your benefit for being part of a group if you're held to stricter conditions, potentially higher rates, and non-refundable conditions?

Hotels ask us for transparency, yet transparency has to be a two-way street. Transparency from the hotels means much more communication on cancellation fees and their justification based on modern sales pipelines and distribution. And on the housing bureau side, I think it's more communication on sales pace — being much more open with hotels, for them to see whether their rooms are selling or not, more communication on potential-

ly adapting rates to make them all sellable, or even potentially the possibility of some level of surge pricing when there is massive demand.

What happens if nothing changes?

I think the citywide housing market is dead if things don't change. I don't see how any company can operate at 7 percent going forward without these sorts of changes. The most likely outcome is an unbundling of all the groups that are in the citywide category. ●



Shawn Pierce
President, Strategic
Events, Meetings &
Incentives, MCI USA

DIFFERENTIATING VALUE

What Third-Party Intermediation Is Really Worth

Now that we've talked to MCI Thought Leaders about the history of the group-commission model and the ways in which that model is broken, let's turn to the role and value of third-party intermediation itself. For that, we've interviewed **Shawn Pierce**, president of Strategic Events, Meetings & Incentives for MCI USA.

How does the reduction in the group-commission rate — from 10 percent to 7 percent, as some hotel companies have announced — affect a company like MCI?

We currently have contracts booked through 2024 at a 10-percent commission rate. However, as we book next year and subsequent years at 7 percent, the financial impact on MCI and all intermediaries is evident. Any time you're talking about a 30-percent reduction in your revenue, it's making an impact. The services you're providing remain the same, but 30 percent of your revenue opportunity from the same client for the same work has been lost.

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What is the group commission paying for? What is it that third-party intermediaries are providing?

The intermediary business is not a high-margin business — nobody is generating 30- or 40-percent profits. The issue we face is, why would hotels want to continue to pay intermediaries at all? What value are they bringing to the table?

This is where MCI differentiates quite a bit. We provide strategic services for that revenue — ranging from full event planning to housing and registration, to select meeting planning, to audience development. All those tangible benefits are being utilized to assist the hotels and organizers.

The client may have been getting some level of rebate, or they may have been using that revenue for strategic services as mentioned. Clients must be educated on the cost of the services that are no longer included in hotel commissions. They're going to have to pay for strategic event services like housing, registration, etc. It's no longer going to be included, because there are hard costs associated with those services.

MCI wants to continue to provide these services. We need to do a better job in the industry of educating what value these event organizers are getting within the guise of hotel commissions.

Does everyone involved in this process fully understand the differences between a company like MCI and other intermediaries — just in terms of the variety of service levels that they provide?

Maybe not. On the hotel side, they pay an internal sales team a commission for the business. Then they pay an independent group for the commissions. Then they question, "What value are we getting for the dollars we're paying out?"

MCI and companies like MCI are providing services and real-time value to the hotel and to the client. You can see where the money is going versus a third party that is a pure sourcing company. When we talk about services like full event management, MCI is going to manage the entire event on your behalf. The revenue from the commissions is offsetting the cost to run that event.

“ The intermediary business is not a high-margin business — nobody is generating 30- or 40-percent profits.

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President, Strategic Events, Meetings & Incentives, MCI USA

We want to utilize that revenue to actually make it easier on hotels. We'll take all the reservations and change orders, and manage that process through the event. Hotels aren't dealing with every individual reservation, cancellation, or change. MCI is providing something substantially different than an organization that simply signed the contract and doesn't connect again until it's time to collect commissions. We're engaging with every one of the guests coming into that hotel.

Who is responsible for educating clients about that?

It's incumbent upon us as MCI, as intermediaries, to prove to clients and be transparent about the value we're providing — the cost and how that cost is being paid. As an organization, MCI needs to list out exactly what those services are going to cost. Even if there is ultimately no invoice, it should still be clearly stated that the expenses were paid by the hotel's commissions.

That has not been done in the past but must change to reflect that value. These commission changes will remain and likely increase, potentially landing at zero eventually.

Do you see things moving to a point where that's not a flat commission rate for everything — where there's a la carte or bespoke pricing for each individual client and each individual event?

I think that hotels would be wise to implement a tiered commission structure based on volume and services. The value and volume that MCI brings to a global hotel brand is vastly different than a small wedding planner

or meeting planner. To compensate MCI at the same rate would be out of step with the value. Regardless of the commission structure or amount, it is important that we specifically list all the services they are requesting in our contract along with the fees associated, then note anticipated revenue from other sources to offset those fees. That way, if the offsetting-revenue model continues to change, as it is now, the client is already aware of the costs. There's simply less revenue to cover those costs.

Certain services may be reduced in the future as well. Clients may not require as many customized and high-end services because they're not willing to pay for them. When services are being offset by commissions, they're not thinking about it and/or they're making high-level demands without knowledge of the cost.

As a global intermediary, what is MCI's value proposition for its events, meetings, and incentive clients?

We approach it from the standpoint of what the goals are for the event — for growth, audience participation, industry recognition, or education. Then we try to help the client build their event around those goals.

If we're trying to grow audience, we help them seek new audience demographics. If we're trying to increase the marketplace of buyers and sellers working together to do more transactions, we're going to work on that. If it's penetration of membership to attend events, we're going to focus on that.

We're looking to provide clients with strategic services that help grow their event to meet their goals. •



Jodie Torriani,
CRME, HMCC
Head of Global Hotel
Procurement and
Strategic Sourcing,
MCI Group

MOVING FORWARD

Group and Individual Markets Are Converging — and That's Not Good

Our MCI Thought Leader interviews have explored the group-commission model from a variety of angles — from how it's evolved, to why it's broken, to what third-party intermediaries like the MCI Group need to do to demonstrate their value proposition. We wrap up our series with a conversation about where things go from here with **Jodie Torriani, CRME, HMCC**, MCI's Head of Global Hotel Procurement and Strategic Sourcing.

Were you surprised when Marriott announced that it was reducing its group commission rate from 10 percent down to 7, and then several other hotel companies followed suit?

Well, it was logical that once one large hotel group made that decision that others would follow suit, so it was not surprising to see Hilton, IHG, and Hyatt, to name three that have made that decision as well.

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Where does that leave the group-housing model?

Well, let's first refer to the law of conservation of energy, which states that the total energy of a closed system is constant; energy can be transformed from one form to another, but can be neither created nor destroyed. It's going to be very similar in this context: You can't change one important element of the business model and not expect an equal and opposite reaction in the system, with potentially increased costs of doing business for the hotels themselves. At 7-percent commission, it's pretty clear that housing bureaus as we know them will cease to exist because the model is not sustainable for them.

For 10 years, consumers were trained to buy last minute. Hotels were complicit with training those consumers to buy, because they allowed them to book with 24-hour or 48-hour cancellation by providing those conditions to the OTAs and by offering them through their own websites. A consumer really doesn't have much upside to book early — maybe they'll take a risk on a slightly higher rate later, but maybe the rate will actually decrease, and in the meantime, they won't get dinged with cancellation charges in case their plans change. So, consumers are making logical decisions based on a fully transparent and competitive marketplace when they book last minute. Our data shows that even on large events, the peak booking window is already less than 20 days before arrival.

Do you see group bookings continuing to move in that direction?

Absolutely. Today, with current pricing systems, commission models, and contractual policies, groups are at a substantial disadvantage in the market, because there is very little transparency. Instead of the traditional group model, what will happen is there will be no more housing bureaus, because no one is willing to contract at the existing group conditions with only 7 percent. There are severe cancellation charges associated with those group contracts, so groups will have no choice — or at least they'll have no incentive — to book inside a group block. Since there is no advantage to book through a group, consumers will be consumers and they will

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follow the path of least resistance, which is to book individually. Based on MCI's analysis, 86 percent of delegates who do not book with the housing bureau book through an OTA and not with the hotels directly, so by extension the distribution costs of the hotel will actually increase substantially.

What does that mean for a third-party company like MCI?

This is where we need to establish those new business models, working together with the hotel industry to find solutions that are going to allow this group model to continue. We all lose out if all of the group business goes to individual bookings, because that's going to be at a higher cost of distribution to the hotels.

What specifically might a new group model look like?

It's linking back to Bob Gilbert's answers in terms of defining the services that each of these types of third-party intermediaries is bringing to the table. Is it simply sourcing only and ends there, or is it like what MCI does when we operate a housing bureau service? We take on the entire operational management of those contracts, so we do all of the modifications, we do all of the rooming lists, and we also do all of the credit-card processing. All of that has time and costs associated with each of those tasks, and as a housing bureau our costs haven't changed, but our commission is down 30 percent.

Does that change how MCI has to do business?

I think it's going to change how the industry as a whole does business. If we talk about group business, groups will cease to exist the way that they do today. More and more will just simply become individuals. We already see that behavior now at MCI — that for us, groups are simply collectives of individuals. They're booking as an individual FIT [free independent traveler], they're booking last minute, so that booking window is shorter and shorter and shorter, and those are the purchasing decisions that the participants are making. They're unwilling to commit early on.

Are you optimistic that we can create a new model moving forward?

We have to. Otherwise we're going to find ourselves looking at the Blockbuster-Netflix scenario. When you ask most people what killed Blockbuster, they mention the internet, but in reality when they launched, Netflix's business model was simply to send rental DVDs by mail. On the Blockbuster side, they made hundreds of millions of dollars with late fees, and the one simple innovation that Netflix brought to the market was to eliminate late fees. They made it so that the consumers could get their movie, but instead of going directly to the shop, they waited to get that DVD in snail mail, but the upside was there were no late charges.

In the group case, the hotels have become addicted to their equivalent of these late

charges, which is group-cancellation conditions. In most cases, these fees are no longer justified based on risk mitigation due to the plethora of distribution channels as well as the consumer booking behaviors already in place in the market.

What might a new model look like that would make all the stakeholders in this debate happy?

Consumers and business will follow the path of least resistance, which means a very high percentage of bookings through OTAs. The group model is broken, with low commission and high cancellation charges coupled to very high service-delivery costs from the housing companies, so it's clear that with no fundamental change, housing bureaus who have a responsibility to their shareholders and employees will need to find alternatives. Of course, they can withdraw from the market altogether, and on an individual level many companies will do that.

Or, they can partner with the OTAs on a new distribution methodology. We know that Airbnb and the OTAs are heavily invested in developing products for the group and corporate market, so it's no stretch to imagine that housing bureaus will simply work with the OTAs to develop a platform able to offer housing solutions to delegates using the OTA systems — with live pricing but also with very flexible booking conditions. In this situation, we then end up where we started, with distribution charges for hotels increasing from the projected 7 percent back up to or even surpassing the 10 percent the housing bureaus were receiving in the past.

Alternatively, we get together with the hotel industry and come up with a new model that conserves the group system but brings

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a new level of transparency and efficiency to the system. We need to reduce and eliminate cancellation charges as a distortion to the consumer market. We need housing and booking systems to communicate, so that hotels can see booking pace and both housing bureaus and hotels can have mutual conversations on allotment or rate adjustments required to fully materialize. We need rate-parity-monitoring technology to ensure that hotels are not underselling, but more importantly to verify that the group rates and conditions continue to be viable in the specific market. We need a willingness to consider rate increases in instances where there are massive supply

and demand imbalances. In essence, we need nothing less than a new mutually beneficial economic partnership with industry, because the reality is that the group market and the individual market are on a path to convergence, and the speed of this convergence will simply get faster. ●



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