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Hotel Barter:

An Underused Marketing Tool That Reaps Financial Gain

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Regardless of the state of the economy, every financial strategy should be considered to maximize occupancy, revenue and profitability during high and low demand periods. The importance of profit to owners and investors demands a critical look at an underused marketing tool – barter. Hotel executives have a fiduciary responsibility to capitalize on the value of their inventory. With unsold rooms as currency, hotels can position their brands to reach desirable corporate, group and leisure accounts. Many companies successfully use barter to strengthen brand image and boost demand for their properties while conserving cash to improve profits.

A proven marketing and financial tool for centuries, barter is simply the exchange of goods and services without the use of money; for the hotel industry, this means using rooms as currency. Barter is successfully used by hotels, airlines, governments, Fortune 500 companies and privately-held enterprises to maximize the value of excess inventory. This article is intended to clarify the key facets of the barter system, its applications, misconceptions and future, via-à-vis the hotel industry.

Barter – an intelligent way to monetize unsold rooms

Using barter provides hotels – from economy to luxury – with a system for selling available room inventory in a way that is consistent with their particular image. Because the typical barter client is a corporate traveler, or incentive group that is not a current customer, hotels can reach entirely new types of clients and sources of future cash business.

Trading hotel inventory is an effective means of purchasing advertising, promotions and other marketing services when funds are not available or are too costly. It is a viable option that can provide a valuable, competitive edge, especially in a volatile or sluggish economy.

Hotel barter provides a one-to-one exchange of inventory for services, without a transaction fee. Corporate barter companies traditionally do not have such fees, allowing the hotel to receive full value of the traded rooms with only the cost per room involved. Rooms on trade are not subject to credit card charges or travel agent commissions.

Barter – Ideal for the hotel industry to achieve maximum profit

Since hotels have perishable inventory, bartering complements the hotels operating systems in many ways.

- Hotels require substantial amounts of cash to operate, and bartering provides a way to conserve it.

- Due to the brief tenancy of guests, [1] hotels must continually advertise in order to remain top of mind and maximize business prospects. Therefore, bartering rooms for advertising is an attractive opportunity since ad placements, like guest rooms, are perishable inventory. Hotels strive to attract clients that fit their target markets and build long-term relationships. Barter provides a mechanism to attract corporate customers who represent future cash-paying customers. Even when these hotel stays are on the barter system, such guests pay cash for food, beverage and incidentals, creating incremental revenues. Consequently, this source of business generates a tertiary business stream that should not be ignored as a way to find new business.

- Newly opened hotels, which typically need to conserve cash and build customer relationships 'sans track record', strongly benefit from using barter. Their generally low occupancy rates and profitability make barter an optimal financial and marketing strategy.

Barter – an option to discounting on the internet since barter provides full value to the hotel and delivers a corporate customer

As hotels' booking cycles shorten, there is increasing use of Internet distribution channels to sell rooms. Unfortunately, it has raised many problematic issues, including:

Price-sensitivity of customers gained through Internet channels which can adversely impact a hotel's revenue and image. Properties that typically cater to corporate executives may find that reduced-rate customers spend less on such incidentals as food, beverage and business center, and demonstrate less loyalty to the hotel once prices rise.

While Internet room distribution is designed to boost occupancy and revenue, the real challenge is to wean consumers off discount-price distribution channels as more lucrative opportunities become available.

A hotel would receive the full value of the room rate when used through barter. In addition, the barter consumer has more incremental spend as they are not a discount shopper.

[1] Whereas the typical tenancy of an office building or shopping mall might be five to ten years, the typical hotel stay is less than two days.

Barter – Issues

Interviews with hoteliers indicate that barter is an option that's generally not "considered" versus not "preferred." Here are some of their perceptions about barter, as well as ways these concerns are addressed and dispelled by barter specialists like Innovative Travel Marketing (ITM):

1. Barter is simply not considered.

   - This is because few barter firms specialize in the hotel industry – a hotel manager obviously does not want a barter agent that deals primarily in excess sneaker inventory. Therefore, working with a firm like ITM that specializes in serving the hotel industry negates that situation.

2. Concern for the quality of guests.

   - This issue can be easily resolved with contractual provisions. For example, a hotel can exclude tour operators from redeeming barter credits.

3. Difficulty in matching the needs of hotels with those of the companies with which they want to trade.

   - A hotel's ability to directly barter with a media company is limited and complicated. The challenges lie in matching their needs, and in the administrative issues of managing barter relationships among many different companies. This is resolved by working with intermediaries such as ITM, which seamlessly facilitate efficient use of trade credits, manage paperwork and reporting, coordinate reservations and the redemption of room credits, and provide expertise in media planning and buying that a hotel might not otherwise have. 4. Difficulty or lack of consensus in establishing the internal barter procedure and bookkeeping protocol.

   - Concern for over-charging a hotel's advertising budget with dollar-for-dollar hotel rooms, can be viewed as undermining the benefits of using barter. However, the true benefit is evident on a hotel's cash-flow statement – which measures cash-in against cash-out – and not the profit-and-loss statement – where revenues and expenses accrue based on fair market value.

5. Concern about receiving quality advertising placements at real value.

   - If a hotel is not a current cash advertiser in a particular media outlet, in most cases, advertising can be secured on a barter basis.

   - Once a client is approved for barter, a reputable barter company will reserve the approved advertising schedule and then submit proof of performance just as an advertising agency would.

The world of barter extends far beyond lodging and advertising. Hotels routinely barter for capital improvements, corporate gifts from clocks to golf clubs, and even payment of routine bills. In addition, hotel chains can apply barter to many properties, in effect setting up a national account.

In some cases, a hotel's barter agreement can involve the trading of more than guest rooms. This is generally not preferred, due to the rooms division having a higher margin of profitability, which enhances the appeal of using barter. However, a resort hotel may find it appealing to include partial food and beverage credit and/or recreation in the barter arrangement in order to keep guests on site, and ultimately, fuel higher spending.

Barter – the bottom line

The hotel industry remains a cyclical business, and economic and geopolitical tensions cause many travelers to cancel, defer or shorten trips. Recognition of an ever-changing operating environment should inspire hoteliers to examine all possible ways to boost performance.

Barter is an underused tool that can make a very significant, positive impact on a hotel's bottom line. By converting unsold rooms into marketing dollars, hotels can continue to boost their presence through advertising when funds would not otherwise be available, or they can fulfill their wish lists of advertising opportunities that would otherwise be monetarily prohibitive.

The inclusion of barter in a hotel's annual marketing budget allows it to expand its sales effort and to dramatically stretch funds to proactively test new markets and build awareness. Hotels can use barter to attract desirable individual customers and meeting programs that generate cash charges for incidentals, as well as bring future cash business to increase market share. It is a fundamentally intelligent tool for boosting demand and profit while expanding budgetary resources.