

Stayful

Zenefits meets Priceline for independent hotels

What They Do

Stayful has built a platform that brings together the 80% of hotels that are independently owned so they can compete with large chains. Stayful gives them free software that only the big guys can build in house, and in return hotel partners give them their users. Hotels make ~15% more on every room sold through Stayful's mobile app, and customers are guaranteed the lowest price for any room online through an experience that lets them book, check-in, order room service, and enjoy all aspects of every hotel stay right from their phone.

Why It's a Big Deal

Stayful's star team has built the first real innovation in the hotel industry since Priceline. Hotel room sales is broken; independent hotels are beholden to sites like Hotels.com and Expedia that handle ¾ of all hotel bookings and charge small hotels 25% of every sale.

Stayful CEO, Cheryl Rosner, took Hotels.com public before turning her efforts to level the playing field for independent hotels that make up 80% of the market, but don't have the scale to negotiate lower fees from the large distributors. Customers get the lowest room rates online and Stayful acquires customers for free in exchange for software small hotels could never build themselves. What benefits has done for small businesses with free HR and insurance software, Stayful is doing for independent hotels.

Bullets

- 144,000 users and 346 hotel partners.
- 20% user growth month/month since launch.
- Real growth will come when new software released in Q4.
- 1st hotel experience app built for independent hotels.
- Software free in exchange for new customers. CAC ~\$0.
- Only 3 users have left the platform in 12 months.
- Investors include executives at Kayak, Hotwire & Hotels.com.

Terms

- Invest in Wefund LLC that holds priced shares in Stayful with these terms:
- **Round Structure: A Priced Round.** The company is selling preferred stock. Pre-money valuation is the value of the company "before" the new financing is closed.
- **Pre-money valuation: \$13,000,000**

Why We Like Stayful

The founders have teamed up to disrupt the industry they built. Cheryl was employee #1 at Priceline and ran Hotels.com through to IPO, while Shariq was a lead engineer at both Hotwire and Expedia. By guaranteeing the lowest price for rooms Stayful is a no brainer for guests, and the same is true for hotels that earn 15% more through Stayful than the larger distributors.

The key to their model is their hard to replicate and extremely cost effective distribution strategy that allows them to acquire guests for 90% less than the competition. Just like Zenefits did with insurance, Stayful gives independent hotels an easy to use mobile app for guests that they would never be able to build on their own, and in exchange hotels give Stayful their guest lists that they can market to in the future. Guests are starting to demand an easy to use mobile experience that allows them to check in and out online, book hotel amenities, room service, and generally acts as an online concierge for their entire stay. Hilton's app was used by 1 million guests each month last year because every partner hotel uses the app. Stayful is positioned to be the portal through which 80% of the hotel market enjoys their stay and books their next trip.

Even without their new distribution strategy, they have acquired 140,000 users and 346 hotels in the last 12 months without spending on marketing.

Hotel room sales haven't changed much in 17 years. Independent hotels are beholden to distribution companies like Hotels.com that charge 25% of every sale. Independent hotels always prefer Stayful because they're the first to charge a reasonable affiliate fee. They're creating a network of independent hotels that are tired of being taken advantage of, and they have a long list of other problems that they can solve for once the network is built.

Industry Research

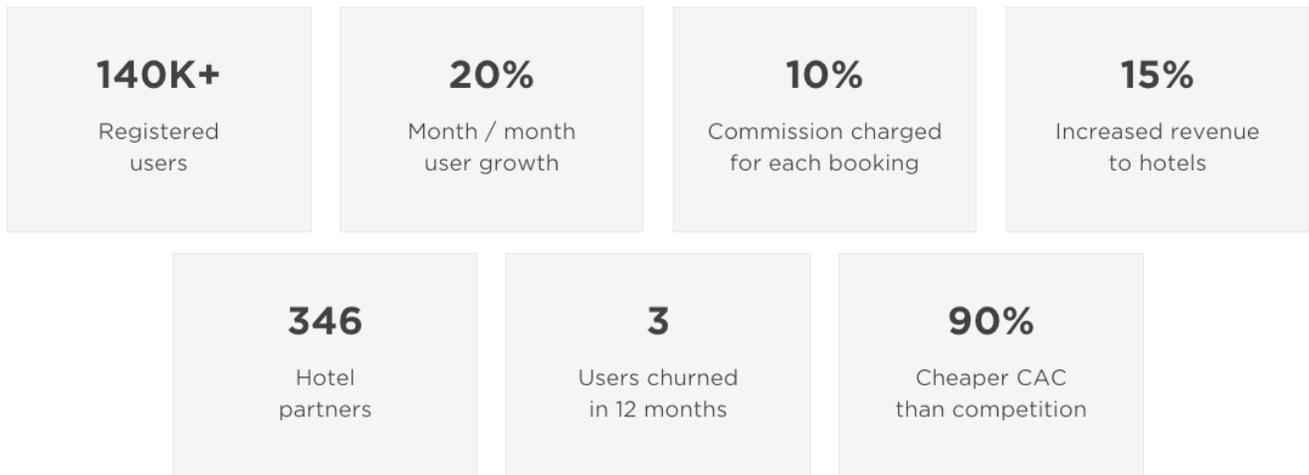
Chain hotels are out of style; guests want unique overnight experiences at independent hotels. Stayful is the first platform catered for the 150,000+ independent hotels worldwide that took in \$288B last year.

- There are 150K+ worldwide and nearly 20,000 independent hotels in the U.S. desperate for an affordable distribution platform.
- Guests spent \$480 billion on hotel services and food last year. Stayful plans to manage all in-hotel transactions via their free app.
- By 2017 tech savvy Millennials will be the largest portion of the independent hotel market.
- 1 million guests each month use Hilton's mobile check-in app.
- Priceline make \$1.84B in Q1 2015. Expedia another \$1.37B.

- The U.S. market for legal cannabis grew 74 percent in 2014 to \$2.7 billion, up from \$1.5 billion in 2013.

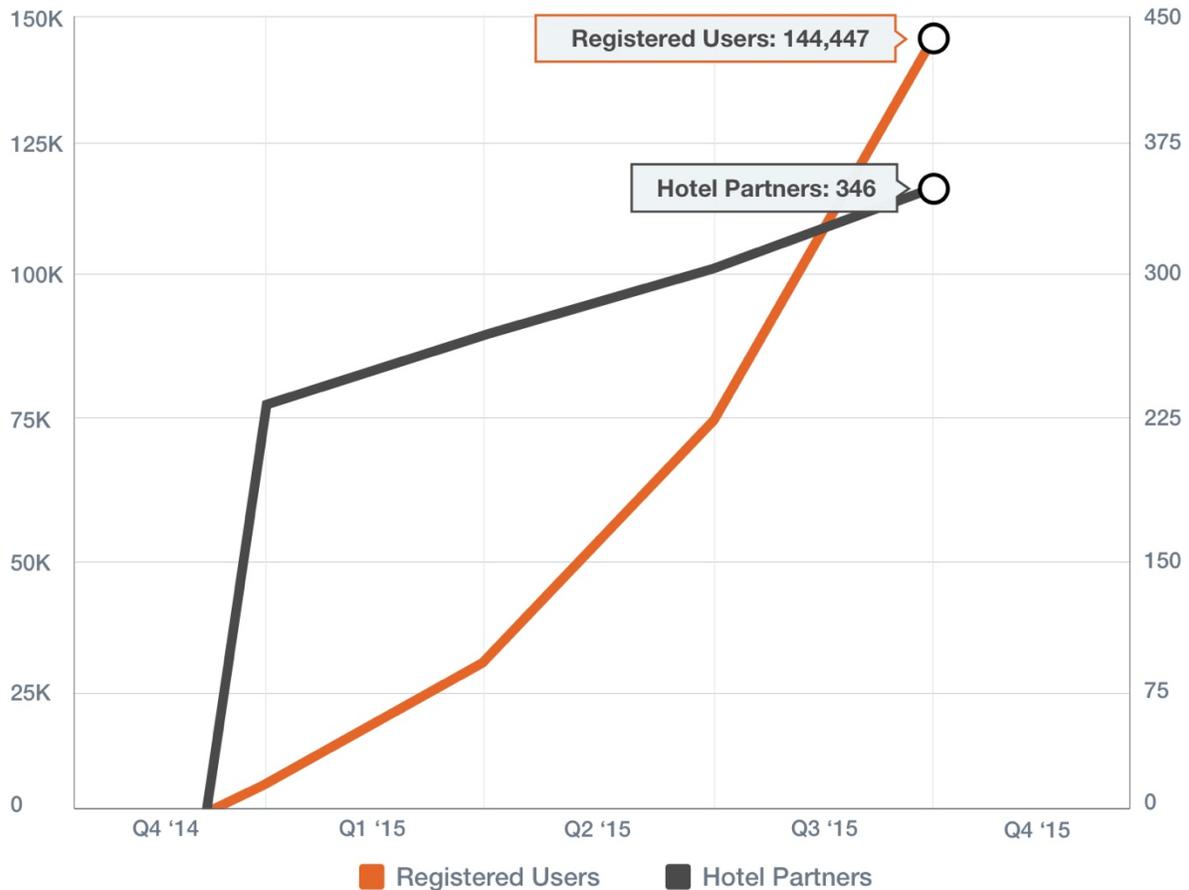
The Numbers

Stayful has built a platform that is cheaper for customers and earns hotels 15% more. Each new user costs almost \$0 to acquire and they've only had 3 of 140,000 drop off in 12 months.



Growth

Stayful launched in late 2014 with zero hotels and zero users and managed to grow 20% month over month by just lowering prices. We can't wait to see what happens when they finally launch their new distribution model and free app for hotels in the next few months.



Strengths vs. Risks

Even the greatest startups have uncertainties and weaknesses. Airbnb started by renting out their own living room, no insurance, no lawyers, no compliance. The future of young companies like STayful is anything but certain. The best investors weigh both strengths and weaknesses before taking educated risks.

Strengths

- World class team. Multiple exits, one IPO. Decades in the hotel industry.
- Team disrupting the industry they built.
- Secret sauce is their unique distribution model. Give away software to acquire customers, just like Zenefits did for insurance.
- CAC 10% of the competition.
- Independent hotels make up 80% of the hotel market.

- Hotels sign on to make 15% more and get free software they wouldn't be able to build themselves.

Risks

- Hotels is a crowded industry, there's a lot of noise.
- Big players could potentially drop their prices to compete.
- Executing on product. It will require perfect execution to build software to replace entrenched hotel processes.
- Sales. The business model hinges on exponential growth over the next 18 months to establish the network.
- Building a solid team as the bedrock for a great company is always difficult.

Founders

Shariq Minhas: The CTO, Shariq, refers to himself as Stayful's 'resident nerd'. He has degrees in Math and CS and worked as an engineer at Hotwire, Expedia, Jigsaw (acquired by Salesforce), FanIQ (acquired by PulsePoint), and Zimride/Lyft before Stayful.

Cheryl Rosner: Cheryl was in the hotel business from a very young age with roles in revenue management, operations and sales and marketing. Cheryl worked on the Priceline beta when with Kimpton Group in 1998 which inspired her to join the founders of Hotels.com when it was primarily a call center business and helped grow that into a billion-dollar company. She ran Hotels.com when it was acquired by IAC Travel and merged with Hotwire, and Expedia.com.

Cheryl joined the Expedia leadership team when the company was spun out under the Expedia Brand to run Expedia Corporate Travel which she took to profitability within the first three months. From there she joined a secondary ticketing company called TicketsNow with their Series A as CEO. They focused on dynamic pricing and creating a liquid marketplace which was a fantastic preview of what they're building now at Stayful. Eventually they sold the company for \$265M. Then Cheryl got together with Shariq and here they are.

Interview

WF: What's the problem you guys are trying to solve?

S: 80% of hotels are independent small establishments that don't have the resources to develop software to improve the guest-stay experience at the hotel. Those same independent hotels also pay the highest fees to sites like Priceline and Expedia.com because unaffiliated with a chain they have zero negotiating leverage.

WF: How did you get started?

S: I've worked in all sides of hotels my entire career, and was previously President of Hotels.com and Expedia Corporate Travel (Egencia). These sites make their money on independent hotels that make up 80% of the market.. We saw the opportunity to level the playing field and build a distribution site that catered to these independent hotels. Stayful is that site: a platform that not only sells hotel rooms just like Priceline or Expedia at a much lower cost, but also provides the technology that managers want and can't afford, and guests have begun to expect.

We started with the immediate problem: lower the cost of distribution for these small chains. In late 2014 we started with a booking platform.

WF: Can you elaborate on the tech services small hotels can't afford?

S: While there may be an opportunity in just providing a lower cost booking platform, we knew that wouldn't differentiate Stayful. We've focused on the fastest growing customer base for small independent hotels: Millennials. Young hotel guests seek a unique overnight experience unlike any generation before. And they want to manage their entire experience via their smartphone.

Many large hotels/chains have apps that guests can use to book, check in and out, order room service, see all concierge offerings, etc. Everything one used to handle at the front desk or from the room phone has slowly moved into hotel apps. But small hotels can't afford an experience like this, and frankly most... [\[+ read more\]](#)

WF: What sort of engagement are larger chains getting from their own apps?

S: Most large chains have just released their first app in the last 3-4 months and while most data is still private we know they've seen excellent results. For instance, we know that approximately 35% of all Marriott guests download their app at check in and already one million Marriott guests use their app every month. Another unnamed hotel has seen at least 5% food and beverage sales increases almost immediately from their in-house app.

WF: Why did you start with a booking platform?

S: The problem is that independent hotels have a fraction of the distribution and advertising budgets that large chains can spend. Because they rely on sites like Expedia for distribution small hotels earn a lower cut, sell fewer rooms, and earn less RevPAR (revenue per available room) than large chains.

An affordable distribution platform for small hotels is the lowest hanging fruit, and for most owners the most pressing problem we can address. It's not sustainable to pay 25% affiliate fees when you need 80% occupancy to cover costs. We did our research and every hotel we spoke with were happy to pay 10% for Stayful to handle all distribution. Owners can now lower prices to compete with chains, off board all distribution to us, and still make the margins they need to cover operating costs.

WF: Why haven't the other distribution platforms lowered their prices to capture small hotels?

S: The entire category has evolved to rely on platforms that all offer rooms at the same price and charge hotels the same rate. Hotels are required to sign agreements with every distributor to charge the same rate on every platform - it's evolved to a price parity contracting industry. Hotels prices remain constant and platforms all charge the same affiliate fee so everyone makes money and a price war doesn't ensue.

Fortunately, those contracts don't affect hotel's ability to sign with Stayful.

WF: Why are hotels able to get around their price parity agreements with Stayful?

S: We can selectively discount because we never publish our rates, and all prices are generated dynamically based on customer preference and demand. Two customers sitting right next to each other might see different rates for the same hotel based on what they're willing to pay and their desire to stay at any given location. To augment our dynamic system and ensure the market prices everything correctly we allow every user to bid ie to make an offer on rooms to ensure their stay.

WF: How does the bid experience work?

S: I'll start with the customer experience. When a search gets kicked off we use an unbiased metasearch engine that scours the web and finds the best rate. Every hotel provides us with a discount range they're comfortable with by percentage rather than dollar amount. When a customer searches we surface a recommended fair market price based on supply and demand for a variety of rooms fitting their criteria. The consumer can then do whatever they want to that suggested offer. Most of the time they see our recommended offer and bid something

slightly lower thinking they can beat the market. We show this offer to the hotel who can accept, counter or decline based on all the same market information we provide to the customer.

With Stayful every customer is shown the best available price anywhere online. We guarantee the Stayful suggested price is at least 10% better than anything online and with the right bid customers can do even better than that. It's a game! And both guests and hotels always win.

WF: How fast have you grown this registered user base?

S: We've grown our registered user base at 20% month over month.

WF: How have you managed to grow so quickly with so little ad spend?

S: Cost effective user acquisition is one of the hardest problems for startups to solve, and we've done it. We provide hotels software for free that they would never be able to build on their own. In return we receive hotel arrivals lists to acquire new customers we know enjoy small boutique hotels for free. So our CAC is 10% of what the competition pays. The app allows guests to check in and out online, book hotel amenities, room service, and generally acts as an online concierge for their entire stay.

Hotels aren't just getting a free app, we actually pay them referral fees for every booking made from their original arrivals list. We share revenue with every one of our hotel partners. If the user originated with the arrivals list at The Dream in NYC, The Dream makes a revenue share of every hotel that guest books on Stayful for 18 months. The guest then becomes a Stayful customer.

The entire team has years of experience in hotel platforms. Yet we can never (re)learn often enough that the most important moment is the nano-second of attention we have to capitalize on. There is so much noise in this market that we only have a moment to prove just how great our Stayful is and we can't waste it - over the last 12 months we've learned how to capitalize on this moment. When we have a customer's attention we focus 100% to ensure they know "Stayful is the lowest price guaranteed for boutique hotels."

We're different than the competition because we capture that moment of attention for free and convert new users to repeat customers. Our competitors buy their customers again and again - every customer needs to be acquired every single time a room is booked at the same high price. Booking.com spent \$1.8 billion on online ads last year, Expedia another billion. The CEOs of both companies have spoken publicly it's the way to keep top-of-mind. Our focus is not to spam users but to meet them halfway with relevant content that engages users where

they already spend their time online. By talking to users where they naturally spend their time, we're organically on their minds on a regular basis and only have to pay to acquire users once.

Millennials will bypass Boomers as the largest segment of the hotel market in the next three years. Rather than spam potential guests every week in hopes they're considering booking travel, we focus 100% on drawing users in with great content and then converting exposed users to registered users in that nanosecond of attention. A registered user is someone who has created an account: we have their mobile number, credit card info and their email. We know when they're preparing to travel, and then we communicate in every possible way to bring them back to Stayful.

WF: Can you give a specific example of content engagement?

S: We reward customers for engaging with our content. For example: New Twitter followers get \$25 in booking credits followed by a use it or lose it email a couple of months later. If they don't want to travel right away they can refer 10 friends to extend their credits. We capture their attention with valuable content and then pull them down the funnel with email engagement that we've crafted over decades of experience and a full year marketing Stayful.

WF: How do you jump into a new market?

S: We start with a geographically distributed 10% of all boutique hotels to ensure we have good coverage. Then we target these hotels directly with cold calls. We augment our initial outreach an affiliate network to add additional hotels. Additionally, before every new market launch we approach local news in need of programming as "industry experts" rather than advertisers. We've been on TV over 30 times this year and it only cost us our time. Cold calls, affiliate networks, and local press have served us well in every new market.

For example: we launched New York with 10% of the hotels contracted. Within a year, we were up to 40% of hotels contracted in that market.

WF: There is a lot of competition out there? How do you fit in?

S: There is a direct competitor for every aspect of what we do. We learn a lot from what their successes and their failures are. But there's no one out there that is solving the hotel stay from booking, right through to check out.

WF: How do you define churn?

S: A user has churned if they cancel their account. We've had 3 customers churn in the last few months.

WF: This is a huge market. Have others tried something similar before?

S: What worked great was Booking.com. They got started working with independents in secondary markets in Europe, at a low-cost model, and worked their way up to where they are today charging an average of 25%. When they came into the market I was at Hotels.com ; we were charging hotels 25-28%. Booking.com came into the market at 15% and we opted to continue our strategy. We were wrong.

The second part of it is there's been a host of other companies that have tried to bring together independents and boutiques in different ways. Some companies offer enterprise software solutions for easy mobile app build out. Another company is focused on a loyalty solution. The problem across each and every one of those is the business model. Every single additional service is another cost to the hotel. We offer everything, for free, and we pay affiliate fees in return for customers.

WF: Besides the lower costs why do small hotels like Stayful?

S: Even though we're a much cheaper distribution network for these hotels, we knew we needed an additional draw to build a network effect. Hence the importance of our services app. All the small hotels we surveyed were nervous about larger chains and their tech advantage. So instead of building just a bookings app, we're building a complete hotel experience that we give to hotels for free.

The app allows guests to check in and out online, book hotel amenities, room service, and generally acts as an online concierge for their entire stay. Small hotels would never be able to build a quality product like this on their own. Our hotel partners will be as sophisticated as the Marriott - for free. All we ask for is their arrivals list and that they give the platform Stayful a shot.

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It's a win-win. We get targeted customers we know enjoy small independent hotels. Hotels are happy because they don't have to create their own app and they get paid ~\$5 every time a former guest books on Stayful. The network builds on itself because hotels are so incentivized to join and tell every other hotels they know. The more guests using the Stayful app the more exposure they'll receive and the more familiar guests will be with the technology.

WF: Can you tell us about the team?

S: Shariq our CTO refers to himself as Stayful's 'resident nerd'. He has degrees in Math and CS and worked as an engineer at Hotwire, Expedia, Jigsaw (acquired by Salesforce), FanIQ (acquired by PulsePoint), and Zimride/Lyft before Stayful. He's been lucky to work at some awesome organizations over the years.

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