LOWERING THE BAR.

DYNAMIC OR NEGOTIATED - WHAT'S THE BEST WAY TO FIND THE LOWEST HOTEL RATES?

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HRS CORPORATE
The Hotel Solutions Provider

CONTENTS

INTRODUCTION.

This is the third in a series of papers published by HRS which aim to explain the essential elements of any robust corporate hotel programme.

In the first paper we looked at how and why good content drives corporate hotel programme compliance by making preferred hotels more bookable.

In the second paper we focussed on hotel distribution costs and explained how corporates can leverage greater savings by taking control of the booking channels through which their programmes are managed.

Here we also examined the cost of lost productivity when bookers and travellers go in search of internet 'bargains'. In HRS' previous paper The Cost of Choice, we calculated that over £17 is lost every time a booking is made outside policy. Doesn't sound much, does it? But for a corporate making 100,000 bookings a year at an average rate of £100 this equates to 17% of overall spend.

In this third paper we will be looking at how hotel rate programmes are constructed. What's the best way to ensure the lowest available rate every time? And what really constitutes 'the lowest available hotel rate' anyway?

We will explain the thinking behind hotels' dynamic and fixed rate strategies, and that the internet can be a misleading place to search for the best deals on hotels for business.

Our contention is that the challenge is not to find the lowest hotel rate, but to find the best hotel at the lowest acceptable price taking into account all the key criteria within any corporate travel policy.

Procurement has a wide choice of solutions to choose from. Hopefully, as this paper will demonstrate, it is possible to have the best of both dynamic and negotiated rate models.

Jon West
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EVOLUTION OF THE HOTEL RATE.

In the beginning there was the rack rate. The term comes from the 19th century practice of hotels using stock tickets for each room with its number, type of bedding and the regular rate. These tickets were placed in a slotted rack along with a slip of paper that showed the name of the guest and the rate being paid.

At the end of each day, every ticket had to be accounted for and a report submitted to the hotel manager outlining any differences between the regular rate and the rate being paid. Hotel reception clerks then began the practice of holding back stock tickets for regular guests at a special price, and so the corporate rate was born.

The post-war boom in air travel brought about the next round of rate fragmentation, with the arrival of the Global Distribution Systems (GDS) seeing the introduction of different rates for bookings not made directly with the hotels but through tour operators, travel and hotel booking agencies instead.

The arrival of the internet gave rise to Dynamic Pricing (DP) models that allow hotels to vary their rates according to demand and seasonality, thereby maximising their yield from every room and hotel amenity. Arguably the biggest beneficiaries of dynamic pricing (other than the hotels themselves) have been the Online Travel Agents (OTAs) and price comparison sites such as Trivago.
The OTAs initially offered competitive rates for leisure bookings, but business travellers soon began to look online for accommodation too - if only to prove that they could beat the fixed rate negotiated by the company.

However OTAs have several drawbacks for corporates. OTAs cannot differentiate between business and leisure customers; many of the rates promoted online are inflexible, coming with restrictions that make them impractical for the business user. It may not be possible to change or cancel the booking, and pre-payment may be required. Booking through OTAs cannot be tracked for Management Information (MI) purposes and therefore cannot be leveraged in future negotiations.

The impact of OTAs on the hotel sector is a big topic to summarise. As one chain's Sales Director says:

"OTAs have had a significant impact on the ability of customers to compare hotel rates which has ultimately affected competition in the market. The high cost of OTA commission for hotels has had a significant impact on the cost of sale for hotels in this distribution channel which - if the hotel has a significant reliance on OTA business - can influence rate levels."

The transparency OTAs have brought has also given corporates the opportunity to benchmark their negotiated rates. If web-only rates prove consistently lower than the corporate rate, the credibility of the programme is undermined. The buyer has to prove that the company can, and does get the best value for money.

WHAT GOES UP MAY COME DOWN...

In recent years, buyers and hoteliers have been pulling in different directions. Demand is rising. Hotel occupancy has recovered to pre-recession levels, and PKF Hospitality predicts that average daily rates (ADR) will grow by 5 – 6% through to 2016. However there is continuing pressure on procurement to keep corporate hotel costs down.

Buyers appear to be fighting a losing battle. 2013 research by Egencia showed that corporate negotiated rates (i.e. discounted rates negotiated by or for a specific corporate with a hotel) are climbing faster than non-negotiated rates.

Corporates have several objectives when building their hotel programmes. To ensure that hotels meet duty of care obligations to travellers; that they are located in the right places; that they are of an appropriate quality, can be booked through the preferred channels, are available at the lowest possible price and can be tracked using traveller security programmes. Compliance with policy by bookers and travellers is paramount.

The hotelier's objective is to fill the hotel with appropriate guests through a booking channel that does not significantly reduce its margins.

CWT estimates that the average corporate hotel programme achieves an average 22.7% saving on Best Available Rate (BAR) over a 12 month period, although hotels are increasingly offering more dynamic models in which corporate discounts are off BAR. In 2014, Business Travel News' Vision 2020 survey found that 61% of travel buyers think that dynamic pricing will be more relevant in the future.

What determines a hotel rate?

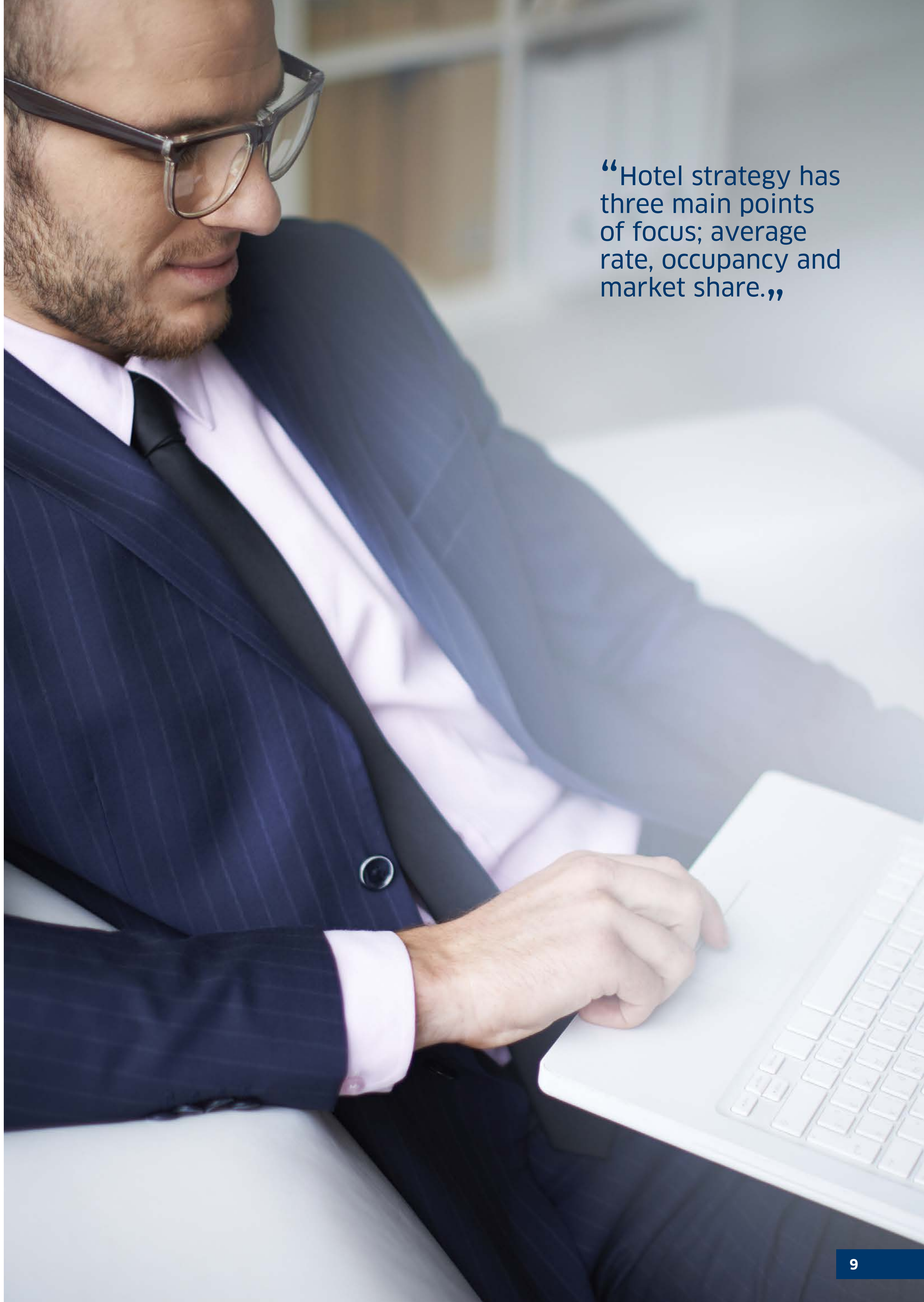
Buyer perspective	Hotel perspective
Destinations required	Market conditions including competitor pricing
Booking volumes	Occupancy
Travel policy	Historical booking volumes
Booking channel(s)	Is there a culture of mandation/compliance
Booking conditions – e.g. Last Room Availability	Distribution costs
Rate composition – inc/exc breakfast, Wi-Fi etc	Ancillary spend – F&B, meetings & events
Negotiation skills	Negotiation skills

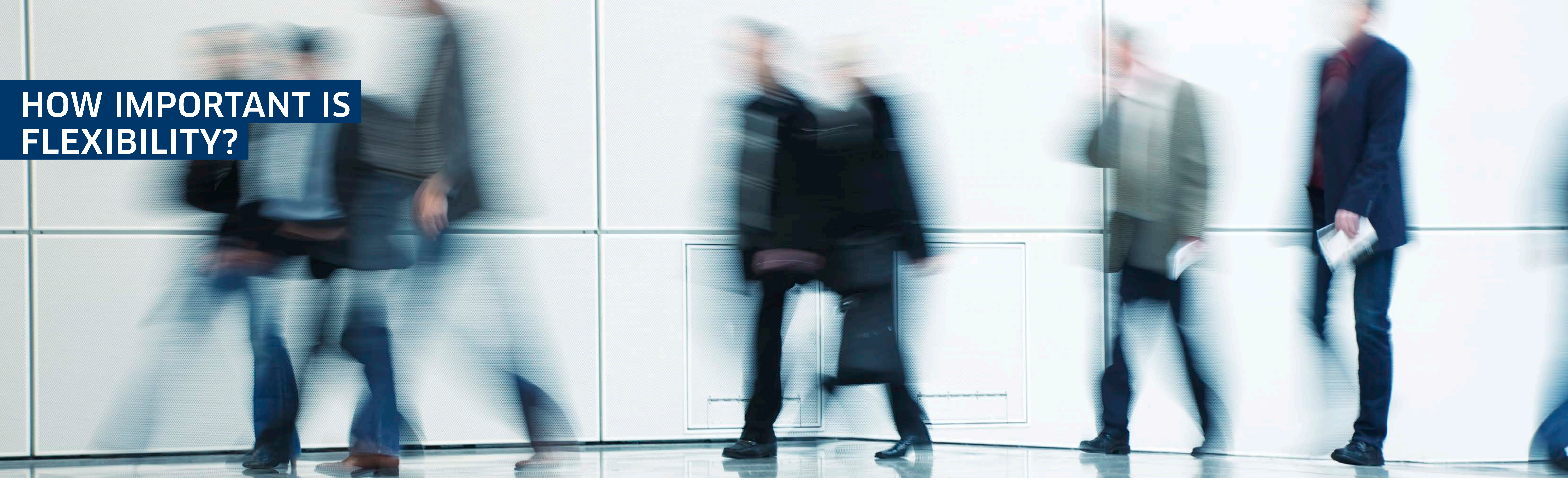
WHAT DETERMINES A HOTEL RATE?

Hotel strategy has three main points of focus; average rate, occupancy and market share. Depending on local trading conditions the degree to which the hotel focusses on one, two or all three elements may vary. Although hotels have high fixed cost ratios, occupancy does not always equate to profit.

Hotel chains typically build their businesses from the perspectives of the hotel, local and global market places. Revenue strategies are based on the yield the operator receives from each market segment - corporate, leisure, groups (including meetings), what their competitors are doing and the geographic regions they need to target in order to build market share, localised demand and seasonality.

As much as hotels want to lock in corporate business, above all they want to ensure their ADR is not diluted and maximise Revenue per Available Room (RevPAR which combines occupancy and average rate.) It's no longer simply about how many room nights an individual corporate can supply but spend on meetings, food & beverages and so on. In other words their Total Revenue per Available Room, or TrevPAR.





HOW IMPORTANT IS FLEXIBILITY?

The degree of flexibility - usually defined as the number of late cancellations - required by the corporate is also a major factor in determining rate although it varies hugely from customer to customer.

Generally speaking, the buying power and procurement expertise of larger corporates will demand a more competitive rate and the flexibility of Last Room Availability (LRA) to ensure access to availability when needed.

Last room availability means that corporates (or anyone) with an LRA clause has a right to buy any room at their contracted terms and prices – even if the hotel has only one matching room to sell.

With SME businesses this flexibility becomes less of an issue as they don't have the scale to drive higher volumes of business. However for corporates, a detailed understanding of their travellers' stay patterns - days of the week, locations required and seasonality – is essential if the different rate types available are to be fully exploited.

Buyers need to understand the different rate types and applicable Terms and Conditions to maximise the savings benefit. For example, if a corporate has a long-term accommodation requirement for a project, cancellation becomes less likely, so non-refundable advance rates will offer best value subject to being available.

Any corporate rate therefore depends on the contribution that client will have on the hotel's profitability. And although hotels base their rates predominately on volume, the varying negotiating skills of buyer and supplier can often mean that hotels end up with as many rates as they have clients.

Hotels want to direct as many bookings as possible into direct channels. However 'direct' bookings do not necessarily offer the cheapest channels for corporates. As the HRS paper The Cost of Choice illustrates, a phone call to a hotel can cost that property up to 14% of its average daily rate in labour, credit card and loyalty scheme costs which are all factored into the quoted rate.

The challenge facing hotels is that of ensuring that rates are consistent between channels. Hotels are investing in customer loyalty marketing to increase direct bookings. For the hotelier, the 'added value' brought by any third party (especially OTAs) is the opportunity to create a direct relationship with the customer if he or she subsequently joins their hotel loyalty programme.

For example, at Travelodge, a number of different corporate rate types (see Hotel Rate Structures *page 12*) are available across different distribution channels. The level of discounts applied to these rates and the availability of flat business rates are based on volume per hotel or the total value of the account to the whole estate.

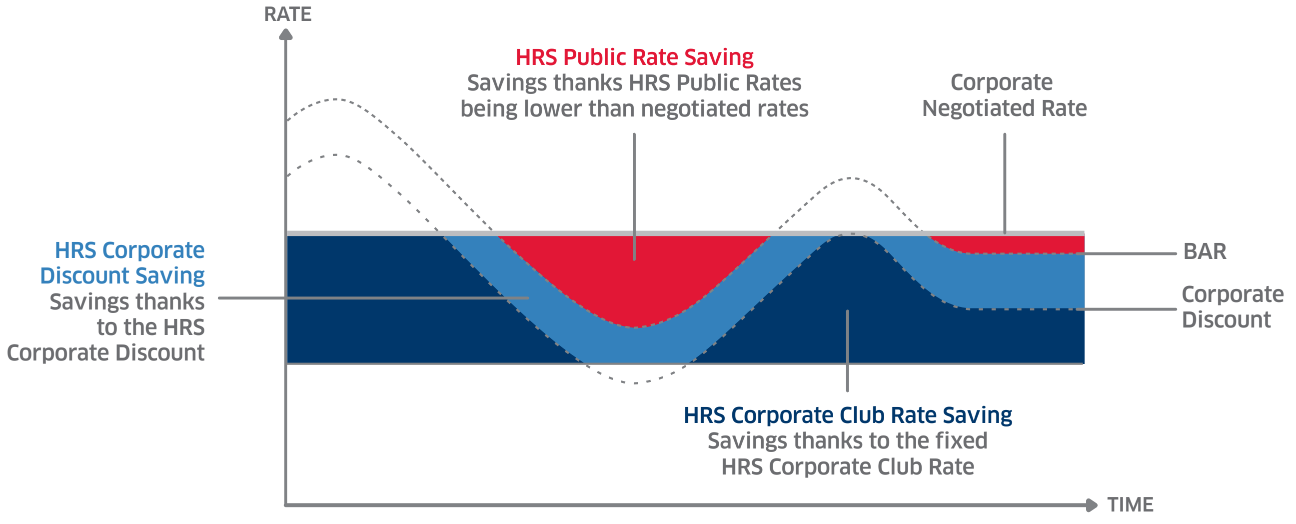
So are corporates disadvantaged by hotels' "direct is best" adage? Andy Besent, Sales Director at Travelodge says not necessarily if they work closely with the hotels to drive volume mutually beneficial to both parties. "However it is fair to say that rate competition in the economy sector of the market is intense."

"Whilst we work hard to offer great value to all our business customers, direct bookings will always have the lowest cost of sale so will take priority. This is currently best seen in the TV advertising arena where OTAs, price comparison websites and hotel groups such as Travelodge, Premier Inn, IBIS and Holiday Inn Express all have significant budgets to drive a direct-to-brand TV message."

RATE STRUCTURES EXPLAINED.

FIGURE 1
Source: HRS

Public Rate			Corporate Discount	Corporate Club Rate	Corporate Negotiated Rate
HRS BAR	HRS Exclusive Price	HRS Hot Deal Rate	HRS Corporate Discount	HRS Corporate Club Rate	HRS Corporate Negotiated Rate
Base available rate	At least 10% price difference in relation to all online hotel providers	Favourable rate with booking restricitons	5 - 30% Corporate Discount on cheapest HRS market rates	Fixed negotiated rate by HRS in top 100 corporate global destinations with free of charge cancellation	Special rates which are negotiated by a corporate customer



As figure 1 illustrates, although there are literally dozens of different rate types in use across the world's hotels, these can be categorised as public rates and business tariffs.

Within these categories there are B&B rates, room-only rates, commissionable and non-commissionable (i.e. net) rates. Then there are individual rates for different market segments - corporate, leisure, groups and crew – which might also vary depending on the distribution channel.

Rates are set by Revenue Managers using dynamic and fixed price models with Best Available Rate (BAR) as their starting point. From here they create the multiple variations that are applied according to period, market segment, competition and client volume.

The first steps taken by any corporate buyer looking to leverage hotel spend should be to look at where travellers need to stay and then to find similar hotels that can provide a better deal.

The next step is to negotiate special rates based on the company's volume of bookings, stay patterns and required Terms & Conditions and thereby consolidate the organisation's hotel requirements.

Thereafter the corporate will usually have five fully flexible rate options:

1. Fixed, discounted rates negotiated by the corporate with individual hotels for a period of one year. The discount should be the highest available if the volume is high enough.
2. Fixed discounted rates negotiated by a third party with individual hotels for a period of one year. For example the HRS Corporate Club rate.
3. A dynamic pricing model, in which a corporate discount (usually 5 – 30%) off BAR rate is negotiated with individual hotels for periods of 1 – 3 years. The level of discount depends on annualised volumes by the third parties.
4. A chain-wide percentage discount off BAR available at every hotel within a specific chain, for a period of up to five years, negotiated by an intermediary.
The level of discount in this model averages around 3-10%.
5. The BAR. The spot price. The day to day rate offered by the hotel itself.

The level of complexity of rate structure in any hotel also depends on the level of services available.

For example, Travelodge's minimal room types are reflected in a simplified rate structure comprising fully flexible BAR rates for corporates and non-refundable saver rates for leisure customers.

Corporates can also access these rates but can also be offered a percentage discount off BAR or a flat rate applicable to specific hotels.

BEST AVAILABLE RATE (BAR).

BAR rates are calculated on a hotel-by-hotel basis at the start of the year and can fluctuate daily to meet local conditions.

BAR rates set by hotels, in HRS' case, are fully audited. In all, HRS checks 9.1 million hotel rates every month across the 250,000 hotels on its system for rate fluctuations and deviations in other distrubution channels.

Other than HRS, only the biggest, global OTAs have contracts with all hotels. These contractual terms cover everything from content and rates to terms and conditions. Other channels may only focus on the fees paid by the hotel for use of the channel, with no control over price or content quality.

BUSINESS TARIFFS.

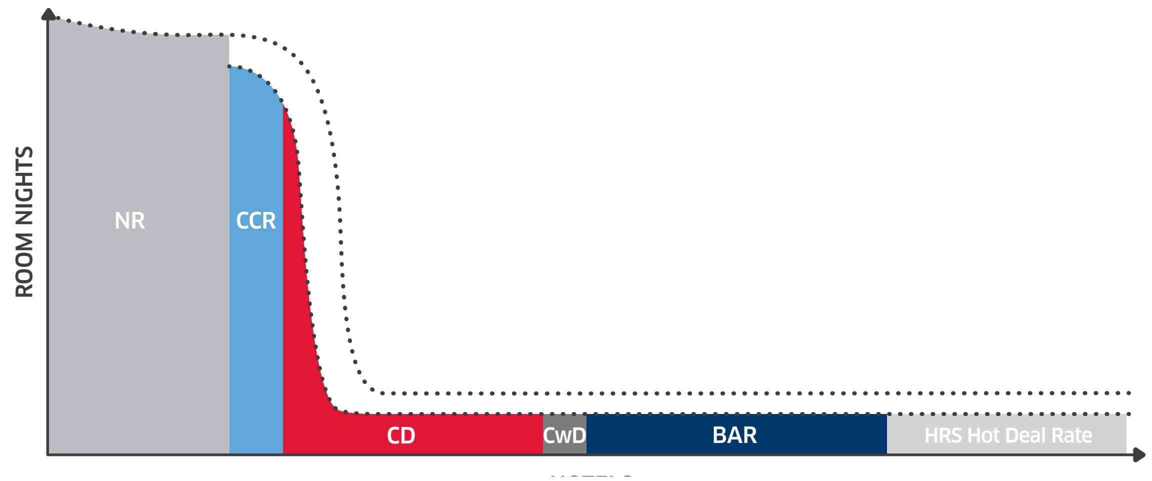


Figure 2

NR - Negotiated Rate
Corporate Rate negotiated by corporate customers

CCR - Corporate Club Rate
Fixed negotiated rate by HRS in top 100 corporate global destinations with free of charge cancellation

CD - Corporate Discount
5-30% Corporate Discount on cheapest HRS market rates

CwD - Chain wide Discounts
Discounts offered by Chain hotels

BAR
Best available rate

HRS Hot Deal Rate
Favourable rate with booking restrictions

HRS categorises B2B rates as Business Tariffs. Figure 2 illustrates the relationship between the different types of corporate rate and BAR.

HRS is unique in offering business tariffs, not least because these tariffs are only available to corporate customers. The BAR rate (leisure rate) offered on the internet is often claimed by hoteliers to be the lowest available, but where a business tariff is available, it will always be lower than the BAR. A corporate negotiated rate is a flat rate. The business tariff may be higher or lower than the corporate negotiated rate, which is where spot buying comes into play, see fig. 1.

Business tariffs fall into two categories. The first is negotiated by HRS using the collective buying power of corporates lacking the volumes to command these discounts in their own right. These are HRS Corporate Club rates and are available to all corporate except those whom had have chosen to negotiate their own rates in the same hotel, this ensures the corporate / hotel relationship is maintained.

HRS Corporate Club rates are typically 30% off the average BAR from the previous year and match high standards of bookability for Corporate Travellers. For example, HRS consolidates hotel booking volumes for the top 100 corporate destinations.

The second category of business tariffs, the corporate discount, is designed to attract business by offering discounts of 5 – 30% below BAR.

Hotels offer these rates because they want the repeat bookings from corporate customers, and because of TrevPAR considerations. The discounts, depending on the volume, negotiated with these hotels are fixed, although corporate club rates may sometimes be lower than the corporate negotiated rates.

Usually these rates will also include enhanced booking terms & conditions, free cancellation up to 6pm on the day of arrival, free Wi-Fi and parking etc.

HRS' corporate negotiated rates programme is powered by Corporate Sourcing, a complex process linking Business Intelligence with a dynamic tool that enables hotel availability and rates to be benchmarked against client-specific criteria.

EXCLUSIVE RATES.

Although rate parity is usually a ‘given’ between OTAs, HRS estimates that this is only the case in around 95% of bookings.

Some hotels offer HRS and other OTAs rates that are exclusive to their channel, although these may only be available from time to time. This is why, in 5% of cases, if you look hard enough for long enough, a booker or traveller may be able to beat the HRS BAR rate.

Even if the company maverick can find a lower rate five times in every hundred bookings, that saving will be decimated by the productivity lost as a result, and the rate secured will probably not be cancellable, thereby risking further changes.

Some OTAs also offer blind or opaque rates. Here the customer does not know the identity of the hotel until after the booking is made (2 nights in Vienna for 2 people @ £x for example).

Then there are special offers, also known as hot deals. Here the booking conditions provide a deterrent to the corporate; a hot deal is quite restrictive, requiring pre-payment and is not amendable. The risk to the corporate lies in incurring cancellation charges; HRS estimates that one in six corporate bookings are cancelled or changed.

SPOT OR FIXED?

All hotel rates are fixed or dynamic (also known as spot). Dynamic pricing (DP) is the practice of hotels changing its room rates day-by-day or minute-by-minute depending on fluctuations in demand. It is based on the assumption that the rate to charge for a room is what the customer is willing to pay.

Dynamic pricing sets the hotelier the challenge of determining the highest achievable price at the time of booking. The question of whether dynamic pricing models or fixed, negotiated rates provide better value to the corporate is a moot one.

However if a corporate assumes that the negotiated rate is the highest rate they would pay (i.e. a ceiling rate), if the variable rate drops below the negotiated rate it can be booked at the lower rate. Hotels unwilling to offer attractive corporate negotiated rates are unlikely to offer attractive DP rates either!

Local events and seasonality impact here too. In low occupancy times hotels will often lower the BAR below the corporate negotiated rate, but for the rest of the year the corporate negotiated rate may be the better value option. HRS provides the best of both worlds because corporates can see both dynamic and negotiated rates, side by side, known as the Best Buy Principle with the lowest rate bookable.

> “HRS estimates that one in six corporate bookings are cancelled or changed”

TURNING KNOWLEDGE INTO SAVINGS.

Having established that corporate buyers no longer need to choose between dynamic and fixed price models – or have to invest the time in creating a hybrid model – here is HRS' advice about what to consider when leveraging best value.

1. The key driver in any hotel rate negotiation is occupancy. Volumes can be leveraged to secure hotels that meet the corporates quality and location requirements – as well as price objectives.

2. The more a corporate understands the day of week, location and seasonality patterns of their travellers, the more chance corporates have of taking advantage of the available rate types.

3. Another key driver is the flexibility in booking conditions required by the corporate; i.e. the proximity of the hotel to business destinations, the importance of Last Room Availability. The buyer has to decide how much flexibility is required by its travellers, and place a value on that flexibility.

4. Hotels will always try to drive rates up by offering what they regard as 'added value' benefits (e.g. free WiFi, waived cancellation charges, early check-in or late check-out etc) but which the corporate may regard as essential.

5. The cost of amending or cancelling a booking should also be factored into the negotiation. The incremental cost to the corporate could be as much as 100% of the first night's stay. HRS estimates an additional 16% saving over the whole programme is required to offset cancellation costs. HRS offers free cancellations on pre-pay rate bookings up to 6pm on the day of arrival.

6. The dynamic nature of hotel rates means that price does not necessarily equate to quality. It does not always follow that a better quality of hotel should cost more.

7. If the corporate negotiated rate is higher than BAR, it may never be booked and therefore becomes the ceiling rate subject to seasonality, major trade shows and so on.

8. New hotels are generally more prepared to offer lower rates because they need to 'lock in' corporate business and have the flexibility to do so.

9. When guarantees are requested from a hotel, try to set volume goals rather than guarantees. Avoid volume guarantees unless the discount is significant enough to justify one and the commitment can be met.

10. Meeting and transient volumes should always be consolidated to drive lower rates and more added value benefits.

11. Buyers considering a multiyear strategy should ensure that a two year rate is not inflated. Where possible, negotiate a guarantee that the agreed-upon room rate will remain in effect for the length of the contract.

12. A clear definition of last room availability (LRA) clauses should be agreed. Last room availability could include a higher category of room type, such as a suite, for which a premium is charged because it displaces higher-paying businesses. Buyers should be able to get LRA at no additional charge.

13. Ensure negotiated rates are visible to travellers at the point of booking, together with any value-added amenities negotiated on their behalf.

THE HRS SOLUTION.

HRS is unique in the global travel industry; a global hotel portal connecting business and leisure travellers with hotels worldwide; a distributor of hotel content to TMCs, GDSs and OBTs and a developer of market-leading sourcing, booking and payment software.

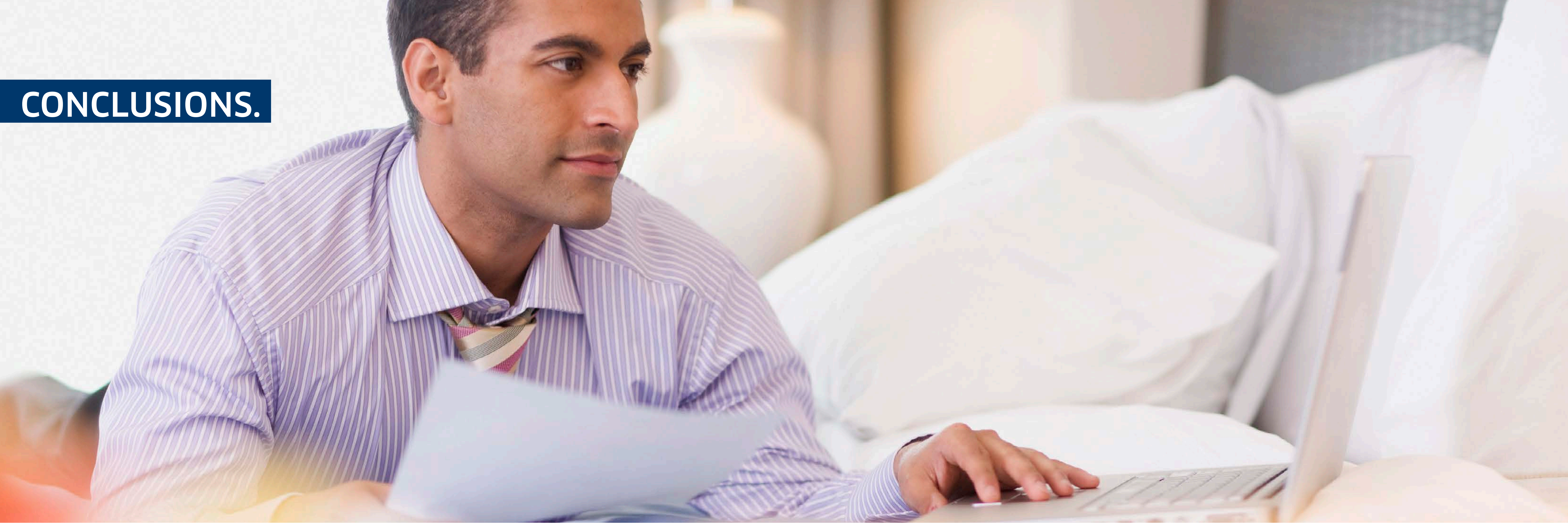
That's why we are regarded as **The Hotel Solutions Provider**.

Comprehensive hotel descriptions, high definition photographs and, currently, 5 million guest reviews of the 250,000 properties are available through the HRS system, our GDS, OBT and TMC partners, 490,000 retail travel agents and through apps for smartphones and tablet PCs. HRS offers its more than 40,000 corporate customers worldwide a variety of tools and services free of charge.

HRS customers can book accommodation online, with no booking fees, at market-beating rates. Corporate customers can access exclusive HRS corporate discounts of up to 30% off the BAR.

HRS' best-buy principle dictates that HRS shows the best price on the day regardless of rate type. HRS also breaks rates down, itemising room-only rates and breakfast separately. This ensures that travel policy accurately reflects buyer behaviour market conditions and policy integrity is therefore protected.

CONCLUSIONS.



Travellers do not possess an overall view of the volume generated by all their colleagues. Finding the cheaper rate on a one off does not help consolidating the volumes and gain negotiation power.

No corporate traveler should be allowed to waste their own or the company's time looking around for the cheapest hotel. The increased transparency of public rates through the OTAs and price comparator websites has also fuelled corporate misunderstanding of rate types.

Travellers may have seen a lower non-refundable saver rate on a hotel website and compared it to a fully flexible rate the company has negotiated. Demand based dynamic pricing by its nature is ever-changing, which also impacts corporate perception.

If travellers go outside policy, it's not just because they want a lower price, but a wider choice too.

However leakage also undermines the corporate's ability to leverage volumes to negotiate effectively and maximise savings.

So corporates require the best of both worlds – a choice of hotels to meet travellers' needs at the lowest price bearing in mind booking conditions.

Effective rate negotiation is as much about choice as price; the mix of rates available is determined by the corporate's choices.

The lowest rate may not be the most cost-effective rate, as negotiated rates often include airport or local transportation, breakfast, Internet, parking and other amenities.

"The mantra that 'if you look for long enough you can find a cheaper rate on the internet' is not false – but misinformed."

It's a three stage process:

- Ensuring the content provided from the hotels on the programme makes them bookable & drives compliance to policy.
- Ensure that the channels through which bookings are made are effective and low-cost, and that the distribution savings generated for the hotel are reflected in lower rates.
- By having bookable content available through a low-cost channel should enhance relationships with hotels which are ultimately reflected in rates that meet both parties' requirements.

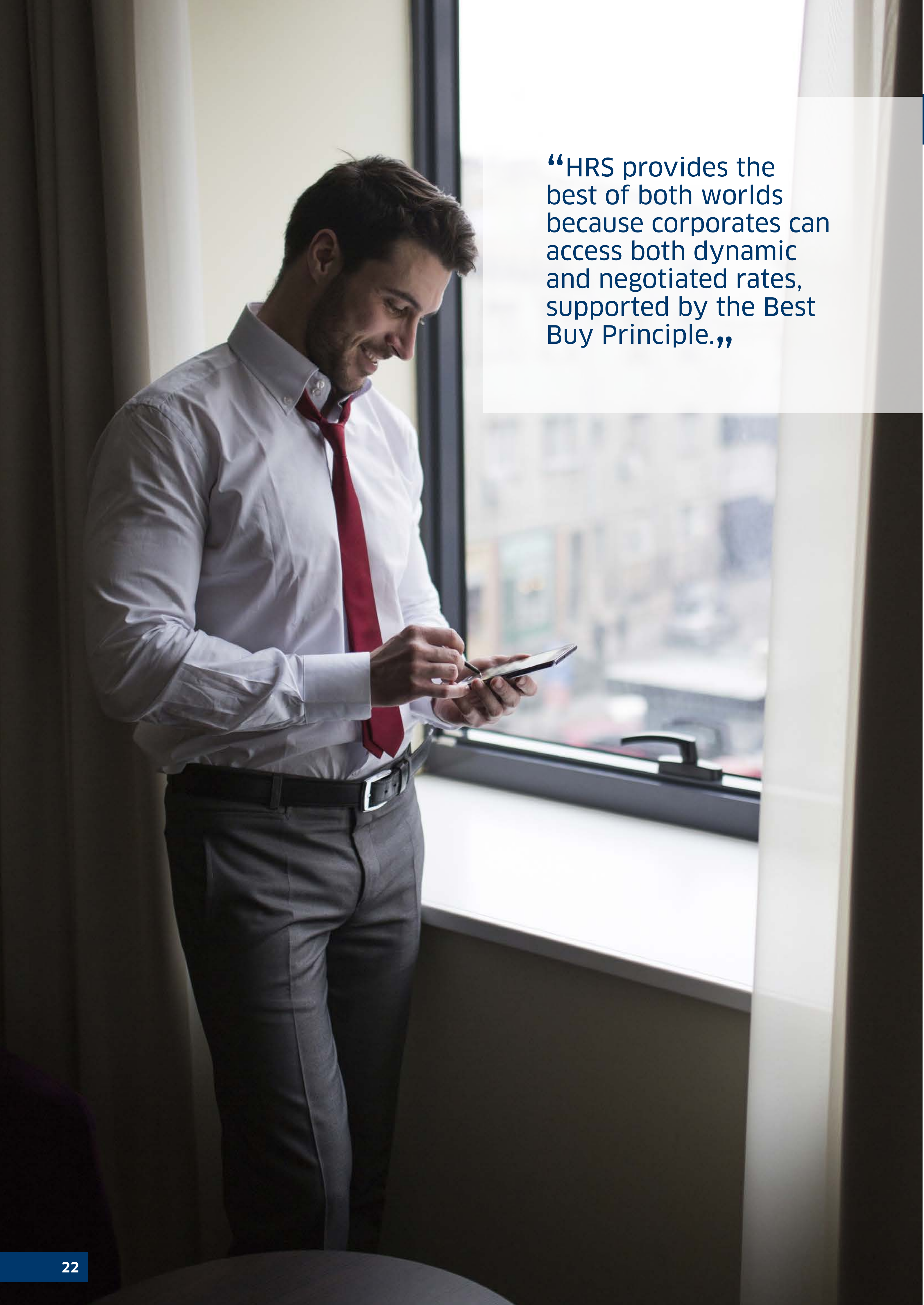
So what about the future; will rate structures become even more fragmented or will greater transparency drive simplicity?

One Revenue Manager believes that whilst public rates may be consolidated, hotels' focus on TrevPAR may mean the reverse for corporate business because of the number of variables involved.

We have already seen how fixed corporate discounts can outperform dynamic pricing models.

On the other hand, as one hotel industry insider puts it, "rates will become more simple and transparent as they have in the airline world. So as hoteliers we have to be mindful of this and adapt appropriately."

"Rates will become more simple and transparent as they have in the airline world."



“HRS provides the best of both worlds because corporates can access both dynamic and negotiated rates, supported by the Best Buy Principle.”

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Business Travel News

Buying Business Travel

CWT Solutions Group

Egencia

Hospitalitynet.org

Hotelnewsnow.com

Hotelrevenuetool.com

HRS – Content is King

HRS – The Cost of Choice

PKF Hospitality

Travelmarketreport.com

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A former Marketing Director of Expotel and First Option, and Head of Marketing at ITM, he was voted the Business Travel Industry’s Personality of the Year in 2006.

TIN’s output has included five editions of the Meetings Industry Report and four Serviced Apartments Industry Reports, over 20 white papers, client magazines and articles for trade magazines as well as helping create & launch Business Travel Market.

He is also one of the driving forces behind The People Awards.

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