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EMERGING STRATEGIES TO SOURCE AND MANAGE TRANSIENT HOTEL PROGRAMS

As rebounding business travel continues to reshape managed travel, leading corporate travel decision-makers and hoteliers are trialing and reviewing new approaches and strategies to better align demand, supply and budgets. Some are questioning whether the annual hotel request for proposals process that has long dominated relationships is the best way forward for transient accommodation needs, especially those where suppliers remain the same year after year.

Staffing shortages for both buyers and hoteliers that began during the pandemic and are continuing for some are heightening awareness that repeating existing practices may no longer be the best practice. As managed travel adapts to demographic, workforce and business changes, perhaps so too must buyer and supplier approaches to sourcing, negotiating and contracting rates for transient accommodations. That was one of several takeaways from a BTN Group webinar on Transient Hotel Program Trends and Emerging Strategies, sponsored by Cvent.

This executive summary presents insights and advice in three parts:

- **6 marketplace trends shaping hotel sourcing**
- **The value and future of the annual RFP process**
- **Strategies for success in the upcoming hotel sourcing season**

6 KEY TRENDS IMPACTING HOTEL SOURCING

1: Business travel is back

Travel managers and buyers are approaching the 2025 sourcing season based on a steady two-year upswing in business travel volume that has resulted in more reliable data to use in negotiations.

Forecasting from Tourism Economics for U.S. Travel Association predicts a 98% return of 2019 business travel volume by the end of 2024, up from 84% of volume recovered in 2023. A full volume recovery is expected in 2025. GBTA's 2024 Business Travel Index Outlook is even more bullish; it projects that global business travel spend by yearend will exceed 2019 levels by about 4 percent with estimated growth of 11% in 2024, fllowed by 10.4% in 2025, 9.2% in 2026, 6.2% in 2027 and 5.5% in 2028.

Cvent's annual survey of travel managers likewise found positive vibes about the future: 83% of travel managers feel positive about the current state of business travel with the percentages increasing to 87% for millennial and 86% for Gen Z travel managers. In the survey, 75% of respondents expect travel volume to increase over 2023.

Data from the hospitality industry reflects the same upward trend line. At New York University's annual International Hospitality Industry Investment Conference in June, some of the world's largest hospitality companies reported an ongoing recovery in business travel bookings as well as optimism about the segment's continued growth.

Hyatt Hotels Corp. president and CEO Mark Hoplamazian said the company's corporate accounts were up 12% through April, and total business travel was up 6% year over year. On a fourth-quarter earnings call in February, Accor Group chairman and CEO Sébastien Bazin said business travel bookings were already at 90% of 2019 levels and "coming back much quicker than I ever expected."

Michael Laumanns, Accor vice president of global corporate clients and strategy, noted in the webinar that the 2024 sourcing season signaled a return to normal in terms of timing and the reliability of data for buyers and hoteliers.

"We had much more robust data available again for all stakeholders to make more informed decisions," he said. "The industry returned to a more traditional sourcing schedule from a timing perspective, and with that, suppliers likely also noticed a shift in the way their client portfolios looked. Some have returned or even exceeded pre-pandemic levels, and some have not, due to various reasons, and this, of course, impacted the negotiations between hotels and buyers."

2: Fluctuating hotel pricing forecasts challenge negotiations

Prior to the last sourcing season, hoteliers were expecting a 5% to 8% increase in static negotiated rates, according to Neil Hammond, a partner with GoldSpring Consulting and webinar speaker. "I felt that was a little bit unrealistic at the time, and it proved to be the case during the negotiating season, and even more so now," he said.

In what STR president Amanda Hite called "a pretty significant downgrade," STR and Tourism Economics in June revised its projection for average daily rates (ADRs) at U.S. hotels from 3.1% in its January forecast down to 2.1% for 2024. A May hospitality report by PricewaterhouseCoopers predicted a 1.2% ADR increase and a 2.2% RevPar increase for 2024, and noted that, "Both

occupancies and room rates are expected to experience only marginal growth in 2025."

Hotel pricing forecasts are important to sourcing, Hammond said, because "Negotiated static rates should not go up at a faster rate than market prices if they're to retain their value. Negotiated rates must remain relevant and linked to the market prices."

3: Dynamic pricing increases as buyers seek to diversify rate types

"Over the last couple of years, buyers have taken a much more diverse outlook on the type of rates that are being sourced, focusing on a smart balance between critical partner hotels that require static pricing versus longtail hotels that can very well be served with dynamic pricing options," Laumanns said.

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Dynamic pricing continued to take on a larger portion of hotel programs for 2024, but the growth trajectory and program adoption has slowed. "This is linked to the relatively high rate environment that we find ourselves in, in many parts of the world," Laumanns said.

4: Hotel attachment rates are a potential trouble spot

Overall hotel attachment rates (or the percentage of air bookings that include lodging bookings), which provide a clear indication of demand for hotel services as well as volume data that can be used to better negotiate hotel deals, "may be getting worse," according to Hammond.

"We don't live in a silo here," he said. "We know what's happening in the airline world with the recent fragmentation of content in our air category. That, plus the looming weaponization of traveler loyalty programs against programs in the air category, is further going to impact managed hotel bookings."

5: Buyers consolidate hotel programs to save money, increase negotiating power

Some buyers are looking for opportunities to consolidate their hotel spend to improve the sourcing results "due to pressure from procurement and management as they're looking to save money," Hammond said. There has been a significant increase in the use of consolidator rates on a variety of platforms, including booking.com and on TMCs. "Even Airbnb has begun to consolidate hotel rates," he said.

Webinar speaker Dan Stagnitta, Elevance Health travel services consultant, said consolidation is also being fueled by the current hotel rate environment. "Overall, with the market pressure on rates at the hotel level, one way that buyers have been able to get leverage back is by consolidating their programs."

Companies are revisiting policies, encouraging use of preferred properties and making sure in auditing that they're getting credit for all room nights as they attempt to consolidate and optimize their leverage with a preferred property, webinar speakers said.

The consolidation trend is likely to continue. "Buyers put a strong focus on the consolidation of their final hotel programs and fewer hotels got accepted, which means greater negotiation power over those hotels that remained," Laumanns said. "We believe that this trend will continue into 2025 contracting."

6: Hotels up their commitment demands

Laumanns said hotels are asking for stronger commitments from buyers now, making it more difficult to obtain highly competitive static pricing in many tier-one locations. "This also has to do with the fact that hotels are taking a much closer look at the calibration between market segments, the volume that comes in at a certain price point, and patterns that may displace other opportunities," he added.

Taking A Closer Look At The Value And Efficiency Of The Annual RFP

The tight labor market and increased diversity in the types of rates buyers are seeking for their hotel programs has prompted both buyers and hoteliers to reexamine the value of the time consuming annual RFP process.

Laumanns noted that all parties invest a great deal of time and resources to support the RFP process. "Why is it possible for every other vertical in business travel to run multiyear contracts, but for hotels, both suppliers and buyers seem to have this love-hate relationship with the RFP process—they can't stand it, but can't do without it either," he said. "We've been debating and complaining about this for decades."

That demand for resources is one reason the annual RFP is once again under examination.

"I would argue that corporations don't have the resources to manage RFPs the same way as in the past," said Stagnitta. "The labor market is tight, and even if you're staffed up, there are numerous other priorities."

Hotels are facing the same conditions as they seek to rebuild staffing to pre- pandemic levels.

Despite recent assertions by CEOs of some of the largest hotel companies that staffing has returned, if not exceeded, pre-pandemic levels, about three-quarters (76%) of U.S. hoteliers surveyed in May by the American Hotel & Lodging Association (AHLA) reported they continue to face staffing shortages. That figure is an increase from the 67% of hoteliers surveyed in January who indicated they were short-staffed and included 13% who said they were "severely understaffed" at a level at which the shortage was affecting the hotel's ability to operate.

Buyers Build Creative Hotel Programs Without The RFP

Laumanns pointed out that since the average hotel program consists of 90% incumbent hotels that have already proven themselves as good partners, "The RFP may not be the most efficient way to address this."

Many buyers have already decided for themselves to break the status quo and build programs that fit their specific objectives and priorities, Laumanns said. Other options may be evergreen dynamic and static rate programs.

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>
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"There are brilliant continuous sourcing approaches out there that take a much more surgical approach to what works, and what doesn't work and hence, needs to be addressed," he added. "There are different ways of looking at categorizing your hotel spend, and with that, outlining different sourcing actions that can address these spend categories very differently."

Challenges To A Multiyear Approach

A lack of standardized industry template supporting multiyear contracts is the primary impediment preventing buyers and hoteliers from moving away from the annual RFP, although that could be changing soon.

"You can get creative and design your own plan, but there isn't necessarily a standardized format to follow, especially when you're trying to get really creative with what you're doing," Laumanns said. He noted that the standardized annual RFP process developed by Global Business Travel Association (GBTA) is under review by a committee he is on, and he is "very, very hopeful that we will end up with a new format soon that will accommodate multiyear contracting as a standard."

Hammond called the current RFP template, "one of the greatest success stories in the industry" while acknowledging that the fact that it doesn't cater to multiyear contracts is a problem. Lack of rate stability is another impediment.

Multiyear contracts require rate stability, Hammond said, which will mandate the need to use dynamic pricing. "As pricing forecasts regularly change, static rates generally won't work for multiyear contracts, particularly when rate variances in different cities are taken into account. So, we've got to work with dynamic rates."

According to Hammond, dynamic rates present specific issues. They need to provide the same value for buyers as static rates do, and they need to be better than discounted rates provided by hospitality chains.

While he remains skeptical, Hammond said, "It is possible to structure a hotel program for top-tier hotels based on dynamic discounted rates, which are much more open to multiyear contracts." There will always be a small number of properties that will have to be negotiated on an annual basis, he added, "but it should be a lot less work going forward than it is today."

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Strategies For Success

Find alignment when negotiating contracts: Getting "back to basics" in how buyers and suppliers work together is key, Laumanns said. "Transparency and trust will lead to mutually beneficial outcomes. Be transparent about market potentials, and if prior commitments that you made to certain suppliers keep you from shifting share." Buyers should address pain points in any markets, including cost, availability, cancellation terms, and incentives that will help shift share.

"Obviously not all of that can be addressed with each hotel in a large size program, but making the effort to find alignment in those markets that truly matter will be rewarded by suppliers," Laumanns said. "They will have a much better idea of what a win, win situation could look like, and armed with that information, they can make that case internally on your behalf in order to drive that mutually agreed strategy forward."

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>
> ***- Dan Stagnitta, Elevance Health***

➜ Transition out of one-year deals unless you are introducing change: To determine if an RFP is the best option, Stagnitta recommended balancing available resources against the value to be gained from doing it. "If you're trying to think more strategically and get out of this arguing over $3 on a rate every eight or 12 months, an RFP might not be a value activity," he said. "An RFP should be done if you're trying to introduce change, or if you really don't know what's going on and you're trying to get a fresh view of the market." Expansion into new markets or markets that require a spot-buy may warrant a formal RFP process.

"I think it's just silliness and busy work to engage in this RFP process where change isn't occurring," Stagnitta said. By aligning with a hotel partner for more than a 12-month window, "You can focus more on personalization and customization for your top travelers and your road warriors in recognition of that business."

➜ Design a program that meets company objectives and evaluate the readiness of your partners to implement it: Laumanns recommended that buyers consider available alternatives and strategies to design a program together with suppliers that fits company objectives. "It cannot be a one-size-fits-all approach," he said. "What rate content, what sourcing approach, what program format best matches your objectives and the company's travel patterns and spend patterns? There are many avenues to explore together with your supplier partners to design that program that makes most sense for your organization."

The next step is to evaluate how well equipped a partner is to put your strategy into motion, including distribution capabilities. "It doesn't mean that one supplier is better than the other. There are just different setup capabilities at play, and you should have these conversations proactively with your partners, especially if you want to be creative with how you design your sourcing process," Laumanns said.

➜ For longer-term agreements, conduct continuous rate audits; be prepared to shift share if needed: To move beyond shorter-term contracts, buyers need to account for any issues and changes going on with their travel program and patterns. At the same time, audits will help ensure there are no games being played by hotel revenue managers and rates are being loaded accurately. Buyers should monitor their program and course correct throughout the year, Hammond advised.

"If you have demand spikes that create availability issues, whether that's getting additional rate tiers or potentially a different hotel, that requires communication with the hotel partners you've selected," Stagnitta said. "Obviously, the hotels can see where your business is going, so from a buyer standpoint you need to be able to shift share if you're going to commit to a program long term."

Buyers also may want to implement or expand "rate shopping," said Hammond. "If you've already implemented it, then review and expand the rate shopping parameters. Try and see if you can move share to your preferred hotels."

➜ Consolidate meeting and transient business opportunities: Combining transient business travel with meetings can increase a buyer's negotiating

power. "For long-term agreements that we've executed with hotels, we've combined it with our meeting program so that we don't have one list of meeting preferred hotels in a market and another list of transient preferred hotels in the same market," Stagnitta said. "That causes unnecessary abrasion with travelers, where they had a great experience in a preferred hotel in one category but now they can't go back and become a repeat customer in a different category."

➜ Use the right combination of static, dynamic and chainwide deals to maximize coverage: "The first thing you want to do is use all the tools available in the toolbox," Hammond said. "Use the right combination of static, dynamic, and chainwide deals as part of your program, and also consider consolidated rates. If you can't beat them, then you might as well just rely on them."

Buyers also may want to review the channels they're using to provide rate content to travelers, including the mix and overall setup, Laumanns said. Considerations include the impact of non-negotiated rate content on a rate program, share of OTA rates coming from a TMC, consortium bookings, direct bookings, and the chain discount share of a program, all of which impact the scope of a hotel program and requirements for additional contracted rates. "With all of that in mind, you build a strategy, a rate pyramid, that best serves your needs," Laumanns added.

➜ Implement or finetune market caps: Increasingly, Hammond said, many of his firm's corporate customers are asking for market cap recommendations, or ways to improve current caps that are no longer accurate or relevant and causing friction for travelers if too low.

"Make sure the rate cap you're setting, and the intent of the cap are understood and coordinated," he said. "In some cases, you may want the option to remove hotels from the online booking tool that are above the cap, or you may just want to flag them for travelers. You may want to set a rate cap more as a target, and let travelers know that other travelers have been booking at a lower rate. There are different ways of doing it. You need to understand what you've got behind you in terms of strength of policy to know where you want to set the caps."

➜ Challenge the inclusion of amenities: Reconsider if amenities should be negotiated into a contract If the value cannot be proven. Including breakfast and same-day or 24-hour cancellation are among the most common amenities, "But how much value is that truly bringing?" Hammond asked. There is a cost to that value because the rates will be higher. If your preferred rates are higher than consolidator rates that travelers find outside your program, travelers may opt to book the lower rates. If they do, he added, "you're not going to get the credit for the volume" toward your preferred program. So, challenge the inclusion of amenities, he added.

Stagnitta agrees. "We're trying to show value in our RFP and hotel programs. One of the things we've done specifically is gotten rid of some of the amenities that we previously negotiated in, because we can't prove that there's value associated with them."

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➜ **Consider owning your global viewership tables to avoid auditing issues:** While most companies have coverage through a global TMC, Hammond recommends that buyers purchase their global viewership table for each GDS. "If you are ever thinking of changing platforms and TMCs, then it's not a major exercise for the hotels to reload the entire program. And, of course, you can provide access to third-party auditors through that global viewership table."

The technology is separate from a buyer's IATA number and commission recovery system, he said. "It's just a viewership table so that you've got one place to load the rates of all your TMCs, and it'll be permanent, even if you change TMCs," Hammond said. "I think that's the next step to owning your program." ■

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