2023 HOTEL SOURCING STRATEGIES

Shift in Response to Internal Mandates & Marketplace Realities

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As business travel regains its footing in response to changing corporate needs and shifting travel patterns, new strategies and diverse approaches to hotel sourcing are emerging.

In a recent BTN webinar on "2023 Transient Hotel Sourcing Strategies," sponsored by Cvent, four industry professionals shared the sourcing strategies and marketplace trends that are redefining the annual request for proposals cycle and reshaping inclusions around sustainability, safety and security. This report covers their insights and perspectives on how the evolving supply-and-demand dynamic will shape hotel pricing and sourcing in 2023.

THE RFP CYCLE HAS SHIFTED

One key trend defining 2023 hotel sourcing is that many organizations started the RFP process months later than the usual early-fall cycle.

"We don't have a lot of clients that have gone through even one round of negotiations," said Laura Kusto, VP and global hotel practice lead with Advito & Stay by BCD Travel in early November. "It's a snapshot that's more indicative of what you would see in a September timeframe rather than a November time frame."

According to BCD data, in 2021 about a quarter (26%) of BCD client programs shifted to an off-cycle RFP process; that figure rose to over one-third (36%) in 2022. "The majority are still on that January-through-December cycle, but we are seeing a shift there," Kusto said.

IBM is a case in point. "What's different from the past is we are starting the negotiating process far later," said Annette Maag, global category lead, hotel, meetings and events, with IBM Global Procurement.

Before the company put dynamic pricing agreements in place for hotel rates prior to 2020, IBM's RFP process began as early as June. "Now we are in November, and analyzing the data, so it is far later," Maag said. "The reason is that we really wanted to have a clear spend picture for this year, so we had to wait until we had a meaningful set of data. Also, in June no hotel would have had a clear picture of how they would price us for 2023."

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From the hotel perspective, Michael Laumanns, executive director of business travel, global sales with Accor, highlighted several reasons for the delay in the RFP cycle. "We are essentially conducting the first large-scale RFP process since fall 2019," he said. "We've seen a couple of years of rate rollovers due to the absence of demand, as well as the absence of data that would allow all parties to make informed decisions.

"There is certainly a level of RFP fatigue out there on both sides," he added. "It seems we are a little bit out of practice, which also might explain why we are behind pace with 2023 sourcing."

According to Kusto, the shift in the hotel RFP process to off-cycle is likely here to stay—and that could benefit travel programs. "One of our overarching strategies is to source in a smarter way, and shifting to off-cycle is one of those strategies," she said. "Diversifying the rate types you source, and of course appropriately sizing your program, are the others."

DIVERSIFYING RATE TYPES: STATIC VERSUS DYNAMIC PRICING

Hotel sourcing strategies for 2023 around rate type has also shifted as many travel program managers grapple with how to optimize their budgets against a backdrop of soaring rates, an uncertain global economic picture, and still-evolving business travel patterns.

"In terms of sourcing strategy, we see a very diverse approach to this year's RFP season, and it really depends on the individual buyer's business goals and objectives," Laumanns said. "If the

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— Laura Kusto, Advito & Stay by BCD Travel

primary goal is to minimize the operational burden of the actual RFP process itself, you may be drawn to an evergreen model with dynamic pricing."

The predictability of an organization's travel patterns is a key factor in determining the best approach. "This will likely drive your approach to static pricing versus dynamic pricing, and the overall mix of chain discounts that you make available to your travelers," Laumanns noted.

Program volume also remains a determining factor in setting 2023 hotel sourcing strategy. Kusto said her company's larger clients are tending toward more traditional programs based primarily on static rates, while many clients with smaller programs are going for a mix of static and dynamic pricing.

"With static rates you are literally getting a dollar value, a number, and that is your rate. With dynamic rates it's a percent off of BAR (best available rate)," Kusto said. She advocates for, "a progressive approach, with smaller and more thoughtful programs that have a mixture of static and dynamic rates and pricing. You focus the static-rate, time-intensive negotiations at your top properties and use dynamic pricing as you go down into those tier two markets."

Kusto emphasized that hotels are supporting this progressive approach to sourcing through their actions. "It's loud and clear. I've never seen a stronger message from the hotels," she said. "They are speaking with their bids. If you don't have leverage, we are seeing much higher rates and we are also seeing an increase in hotels that are just flat-out declining to bid."

For 2023, rollovers are a thing of the past and volume-based leverage must be based on an organization's actual 2022 bookings. "We are done looking at old data," Kusto said. "You've got to use your 2022 data, that's a given."

DYNAMIC PRICING: EXPERIENCE FROM THE FIELD

At leading global law firm Baker McKenzie, Steven Van Overmeiren, associate director of global services, said he has taken, "a largely dynamic discount approach with regard to our hotel program rather than a set, static rate." Baker McKenzie is in the early stages of building the firm's first-ever global travel program, which includes dynamic discount pricing at about 500 properties worldwide.

"The beauty of that is it allows us to work with our partners on a longer term basis without the need to renegotiate on an annual basis," Van Overmeiren said. "Those discount agreements are evergreen in term, and we have defined that our agreed discount must apply to every room and every day of the year. Even if the market dynamics dictate rate increases, we continue to see the value in each and every booking that we make with our partner hotels."

He added that the firm is not doing a full RFP this cycle In lieu of working with hotel partners to remind them of the evergreen dynamic agreements currently in place.

At IBM, Maag said the company is continuing the sourcing approach set in place pre-pandemic, when it changed the majority of its hotel program to dynamic pricing. At that time IBM also negotiated discounted rates with major chains in long-term contracts, and contracted with high-volume hotels for two-year rates that expire this year.

Advito & Stay by BCD Travel 2023 rate proposals vs. BAR

Top US Cities

City	Preferred Rate '23 bid vs. '22	BAR '22 vs. '21
New York	12.6%	15.8%
Houston	6.1%	0.1%
Atlanta	7.3%	3.4%
Chicago	8.9%	13.3%
Austin	15.3%	17.4%
Nashville	15.3%	5.3%
Washington, DC	10.8%	2.6%
San Diego	3.7%	26.3%
Charlotte	6.9%	6.2%
Dallas	10.0%	16.7%

Top Global Cities

City	Preferred Rate '23 bid vs. '22	BAR '22 vs. '21
Shanghai, China	1.7%	-7.9%
London, UK	25.5%	16.7%
Beijing, China	7.1%	-10.0%
Bangalore, India	35.2%	1.9%
Mumbai, India	37.4%	11.0%
Tokyo, Japan	2.9%	-21.6%
Paris, France	11.6%	8.2%
Sydney, Australia	5.6%	3.8%
Jakarta, Indonesia	-3.9%	3.8%
Madrid, Spain	11.3%	0.0%

Source: Advito & BCD Stay BAR data and analysis of bids received to-date as of Nov 4, 2022. Preferred rates for 2023 reflect most recent bids on file for clients with active RFPs and include the more recent of first bid and negotiation responses.

PRACTICAL POINTERS ON HOW TO LEVERAGE HOTEL RATES IN 2023

Laura Kusto, VP and global hotel practice lead with Advito & Stay by BCD Travel, offered travel managers practical advice on how to approach hotel sourcing in order to secure optimal rates.

- **Understand the local market:** Noting that every market and situation is different, Kusto advised travel managers to do their research. "You need to understand what's happening in the local market," she said, including the year-over-year increase in the standard rate, what the hotel is proposing, and how those two figures compare. "If the local market is going up 20% and you are only getting a 10% increase, you're actually doing pretty well. If the market is going up 5% and you're being given a 15% increase, there are a couple of things to look at. Number one is how much volume you are bringing to that hotel. That's where you have to be thoughtful about your program size."

- **Build a strong business case:** "If you are not bringing volume, hotels are either not bidding or giving you a really bad rate," Kusto said. "There is room for negotiation if you have the business. You have to be better than you've ever been at pulling your business case together. You've got to be able to justify the volume."

- **For smaller programs, focus on your top-volume:** For smaller hotel programs, Kusto recommends quoting the percent of your business that the hotel is getting. "Focus on where you've got a lot of volume or where you are bringing a large percent of your volume," she said. "Maybe you can't bring a hotel 500 room nights, maybe that's all you're bringing the whole market," she said. "But if you can tell a hotel they are getting 80% of the volume you are bringing to a city, I think that will hit them in the right place, and they'll say maybe you aren't the biggest fish but you are loyal. That will move the needle a little bit."

- **Consider revising your sourcing strategy:** "You've got to start adopting some other strategies," Kusto said. "Sourcing and having hotels every single place your travelers go just doesn't work anymore. Your rates are just not going to be that good."

"For 2023 we are continuing this approach, and we are currently analyzing which hotels we will add to the program," she said. "We are also looking for one-year rates because we are not convinced that the current environment is ideal to negotiate two-year rates."

SAFETY AND SUSTAINABILITY: RFPS AND BEYOND

Travel managers are taking varied approaches during the hotel sourcing process to secure the specific information they need on both sustainability and safety and security in a radically altered environment for meeting duty of care obligations and new sustainability goals and requirements.

Laumanns noted that organizations often have specific questions about a hotel's current safety and security protocols because concerns vary based on the nature of an organization's business and the geographic area in play.

At IBM, for example, "We have two approaches," Maag said. "In one region of the world, we are only looking at accepting hotels into the program that are approved by our local security team. For the rest of the world, we have defined questions from our safety and security team that we are asking hotels in the RFP, and we are collecting that data." She added, "There is an awful lot of information out there, but at the end of the day we have specific needs and we are only asking about those needs."

At Baker McKenzie, Van Overmeiren and his team have taken a different approach. "In my view, information about the safety and security of a property and the sustainability factor as well really don't belong in the RFP. They aren't negotiable items," he said. "We've taken a more RFI (request for information) than RFP approach to ensure that the hotels we invited to the RFP when we did our initial build of our evergreen dynamic program met the requirements of the firm from a safety and security perspective, and from a sustainability perspective."

On the issues of sustainability, Laumanns said hotels are seeing a much more mature engagement level in RFPs. "We are seeing a lot of very good questions being asked in order to determine the positioning of the supplier on sustainability.'

He added that, "We have seen things evolve quite a bit over the last few years. Organizations started with more of a data collection approach, just getting an idea where they stand in relation to their suppliers, and that has evolved quite significantly just recently where now organizations are utilizing this data and beyond to drive booking behavior and to drive volume to the suppliers that are aligned with the organization's priorities."

Kusto noted that sustainability is "a very hot topic" that is also new for many travel programs. "My recommendation is to start talking about it and learning about it. Let yourself be a beginner if you are a beginner. There is a lot of great information out there," she said. "Let's approach this topic with positive intent. Let's come together trying to do a good job, trying to do the right thing for our environment. Start where you are and do what you can and trust you are going to make good progress every year."

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2023 SUPPLY AND DEMAND FORECASTS

Supply and demand dynamics—with leisure travel continuing to outpace business travel and new hotel construction lagging—are dominating the pricing landscape and hotel sourcing strategies for 2023.

"Business travel is still lagging versus leisure travel, which is really driving the demand, so your leverage is low," Kusto said. "This is a really tough point in time to be negotiating." On a more upbeat note, she added that, "meetings are back with a vengeance. That's something you can leverage."

Laumanns believes pent-up demand to travel will shape 2023 patterns for both leisure and business travel in the coming months. "Because of the pandemic we are still experiencing a great deal of pent up demand across all segments," he said. "I often get caught up in my business travel bubble, but that really is across the board."

The slow resumption of new hotel construction will also shape the supply-demand dynamic well into 2023. On a recent earnings call, "major chains confirmed that construction of new hotel properties largely froze up over the last couple of years since the pandemic and are really slow to return," Laumanns said. "The increase in demand combined with the limited supply growth points to a fairly stable pricing environment in the short- to mid-term, and that includes a mildly recessionary environment."

Kusto believes that, given the uncertain economic outlook for 2023, "I would expect that pent up demand from leisure to drop a little bit, and the ability of people to travel for leisure reasons to be less prevalent. I do think that business travel is going to get some leverage back in 2023, so hang in there," she advised. "Also, going into 2023 with that dynamic, it's never been more important to monitor your rates and if you see rates go non-competitive, especially if it's early in the year, get out there and renegotiate those rates with your hotels."

EMERGING TRENDS SHAPING SOURCING STRATEGIES

With the current uncertainty and recessionary concern dominating global economic markets, both hotels and travel managers appear to be rethinking the use of dynamic pricing models.

"It's interesting to see the evolving appetite on our side for dynamic pricing," Laumanns said. "You can certainly see a moderate shift back to static pricing with requests for 2023 programs. Some of that is obviously being driven by concerns around pricing. It may also explain why we have not seen the model of dynamic pricing with a ceiling taking off as we anticipated when it was first launched a couple of years ago."

At Baker McKenzie, some hotel partners are rethinking the evergreen dynamic pricing agreements the firm has in place.

"As we look at 2023, we are seeing more change requests than we have seen in years past, and we are seeing a little bit more appetite from the hotel community to try and either eliminate or reduce the dynamic discounts that are in place," Van Overmeiren said. "That's no surprise as it's become quite a seller's market. We are meeting those with strong negotiations and really focusing on the long-term partnership piece."

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Another dimension to the shift he has observed is, "There is a bit of a disconnect between some of the chain level messaging and some of what we are hearing back from individual properties with regard to the value of a dynamic discount."

Van Overmeiren also identified a trend for hotels to tack on additional fees, including urban resort fees, energy surcharges and more.

"That is something we will be continuing to watch and reaching out to our suppliers to understand their approach," he said. "Given the structure of our program, we do expect to see those increased costs that are borne by the hotel come through in terms of the market rate that our dynamic discount is based on. That will be my personal preference rather than to see additional fees tacked on which come through after a person checks in or checks out."

As is the case with every travel manager working on 2023 hotel sourcing, effectively communicating the reality of price increases to stakeholders who have a say in setting travel budgets and expectations around trip frequency is a challenge.

"When it comes to internal budgets I've been very proactive and so has my team in setting expectations," Van Overmeiren said. "We are heading into a market which is seeing prices increase in the accommodation space, and in many other categories as well. We are making sure all stakeholders across leadership are fully aware of what that means, and if that means we need to increase budget for next year, or look at reducing the number of trips to manage the budget, that's where we'll have to focus."