Hotel RFPs:
Quintessential, Essential or just CYAssential?

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EXECUTIVE SUMMARY

What do you get when you combine an extremely fragmented but consolidating hotel market, where rooms are chasing people, and an economy that is ignoring the traditional seven year economic cycle? Opportunity…you get opportunity. Even if you're not a disrupter like me, the scent of opportunity is in the air. And this is no time for CYAssentialism, so let's answer that question right out of the gate.

This paper explores what happens when you allow the market forces to be with you. Dynamic pricing is a big deal and you should be taking advantage of it. Think about taking advantage of non-refundable rates while hedging your downside risks. Then there are extended stay apartment options. With all of these currents, we will look at how hotel RFPs may or may not have a place in your travel program.

We surveyed more than 375 corporations from around the world of all sizes and scope. Among the 120 respondents we learned that more than $700k in FTE expenses were spent year-over-year for the past three years only to find negotiated rates increasing by 3-5% each year. Meanwhile, further research shows that dynamic pricing beats negotiated rates nearly 50% of the time. So why are we are spending money to spend more money? You don't need to be an actuary to see that those numbers just don't work…"that dog don't hunt" as they say. Today's more progressive buyers are working the market dynamics and managing traveler behavior to make the market work for them.

This paper is going to take you through some research my team recently conducted as well as some on-assignment observations gleaned over the past twelve months. Cutting to the chase, it's time to evaluate all of your options in the hotel world. It's time to avail yourself of incremental savings (not 3-5% increases) while streamlining tried and true procurement practices. In other words, spend less and save more.

TABLE OF CONTENTS

INTRODUCTION

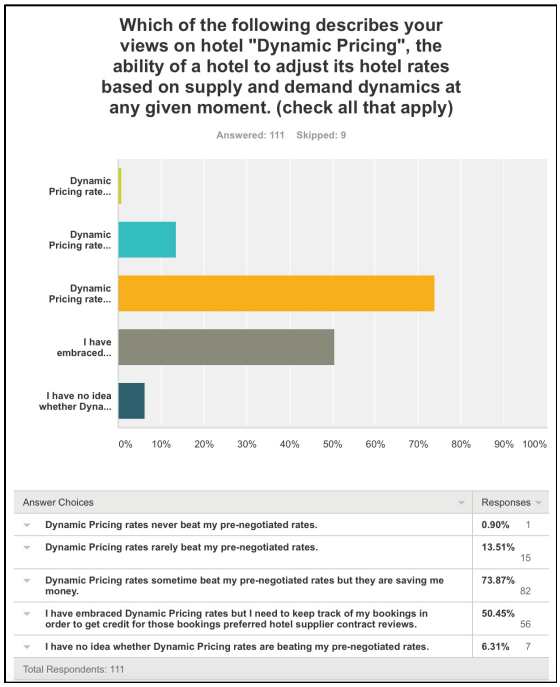
Welcome to my first paper of 2017. For those of you familiar with my writing style this paper should be a page turner that you can relate to that will hopefully exceed your expectations. Lots of facts. No shortage of opinions. New and disruptive ideas. All the usual jazz that you have come to expect from a white paper written by yours truly.

Here's the **problem** we need to solve:

We live in a procurement world of tried and proven methods that sometimes may suppress more progressive approaches through less than tried and proven methods of buying.

Here are some questions you should be asking yourself:

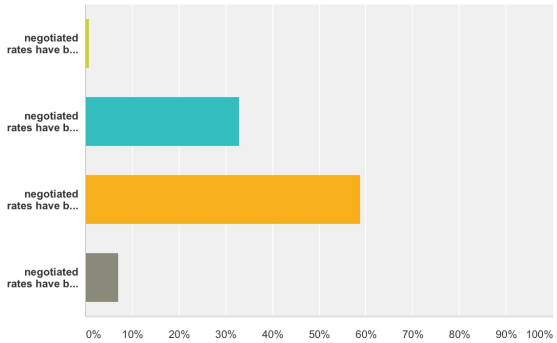
- How often does hotel dynamic pricing rates beat my pre-negotiated rates at preferred hotels?
- How many FTE hours does my team spend each year negotiating rates that are often beaten by market dynamics?
- Recognizing that the lowest market rates are often non-refundable, how often do my travelers actually book a hotel that ends up being cancelled?
- Has my tried and proven hotel RFP process outlived its usefulness in a dynamically priced hotel market?



When we asked our respondents how often they conduct hotel RFPs we received comments from buyers ranging from having already given up on RFPs altogether to those that use them sparingly for select projects or events.

Comparing your negotiated hotel program rates year-over-year (YOY) for the past several years, which of the following best describes the trends you are experiencing?

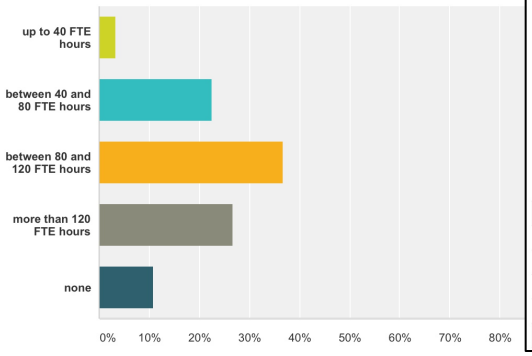
Answered: 112 Skipped: 8



Answer Choices	Responses	
negotiated rates have been decreasing by up to 5% YOY.	0.89%	1
negotiated rates have been mostly flat YOY.	33.04%	37
negotiated rates have been increasing 3% - 5% YOY.	58.93%	66
negotiated rates have been increasing by more than 5% YOY.	7.14%	8
Total		112

How many FTE hours are spent on your hotel RFP processes?

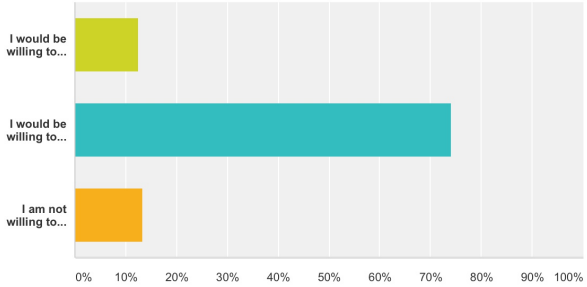
Answered: 120 Skipped: 0



Answer Choices	Responses
up to 40 FTE hours	3.33%
between 40 and 80 FTE hours	22.50%
between 80 and 120 FTE hours	36.67%
more than 120 FTE hours	26.67%
none	10.83%
Total	

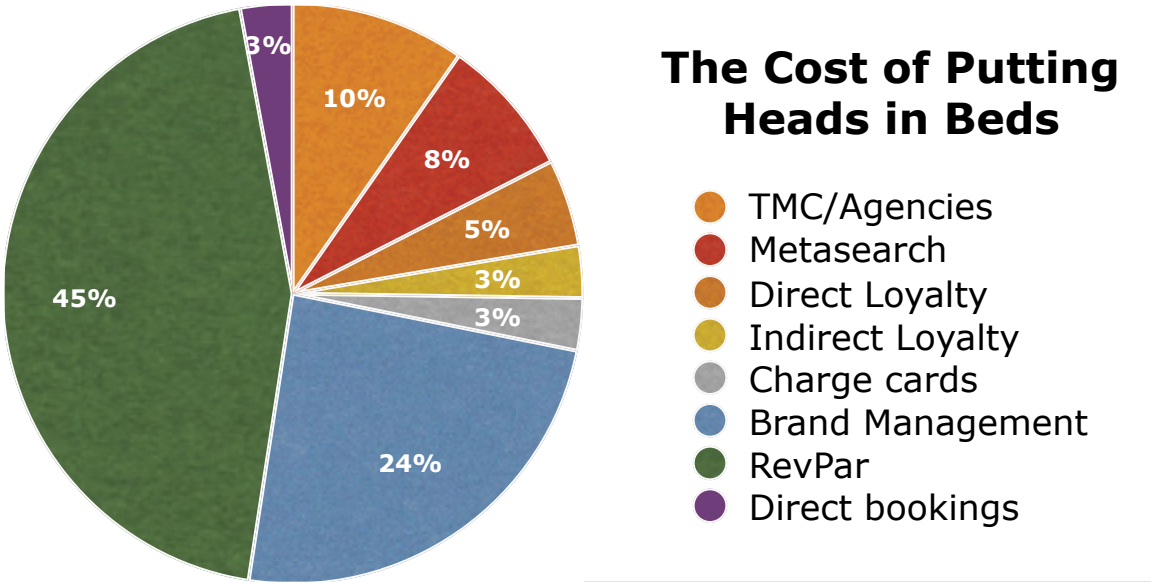
Describe your willingness to consider alternatives to your current hotel RFP process with the provision that your hotel spend would not be adversely affected.

Answered: 120 Skipped: 0



Answer Choices	Responses	
I would be willing to consider an alternative hotel RFP process but there would still need to be some form of RFP.	12.50%	15
I would be willing to consider an alternative approach for my hotel program that eliminates the RFP process.	74.17%	89
I am not willing to consider hotel RFP alternatives at this time.	13.33%	16
Total		120

Genuinely strategic sourcing professionals have taught me over the years to build my negotiating strategies around the cost of doing business. As a travel management company (TMC) exec in the 1990s, in the advent of the commission cuts, that meant opening the kimono on operating expenses and commission revenues. The hotel world is much more complicated than the TMC world but it will be time well spent to understand the cost of distribution from a hotelier



perspective. Hotel distribution strategies are historically one of the most fragmented of any segment of the travel industry. There's good news and bad news here. The good news is that there are many channels to navigate. The bad news is that you may have already tapped most of them at least indirectly. On average, hotels pay at least eight times to put a head into a bed.
Here's the standard roll call to put heads into beds:

Travel Agencies and Travel Management Companies - Travel agencies and travel management companies typically are paid ten percent commission on base rates. Preferred partner programs add between three and five percent commission tied to specific performance metrics.

Metasearch engines - Metasearch engines like Trivago and Kayak are typically paid comparatively pennies on the dollar to direct business to hotel sites or booking intermediaries regardless if there is a purchase. One way or another those costs make their way back to the hotel.

Direct loyalty programs (brand programs) - These programs come with direct marketing benefits tied to the hotel brand and are charged by brand management companies. Typically costs associated with these programs are bundled into a broad base of services being provided by the brand management company.

Indirect loyalty programs (card programs) - These are consumer co-brand cards from American Express, MasterCard and Visa. Revenue sharing takes place between the card company and the hotel

brand management company that brings the net cost effect associated with these cards down to pennies on the dollar.

Charge card programs and fees - Hotels pay merchant fees of between one and three percent on charges applied to cards.

Fees within hotel brand management programs - Most hotels are owned by individuals or investor groups unrelated to the hotel brand. Hotel brand management companies such as Marriott, Intercontinental Hotel Group, Hilton, etc. sell services to individual owners from a menu of options. Branding related costs billed at cost and typically net between twenty-five and thirty-five percent of overall sales.

Resources for direct bookings - These costs are for staff at the hotel who manage bookings that are called directly into the hotel.

These are just a few examples of costs that go into pricing decisions made by hoteliers most of which are generally not taken into consideration in hotel RFPs. Conversely, the typical hotel RFP is all about what a hotel can do for the client. "Wham, Bam, Thank You Ma'am" to quote the late David Bowie… You grab what you can for transient bookings, hedge your meetings and events activity, and run with what you can get. Okay, this may be somewhat of a dramatization but truly strategic procurement managers think much broader and deeper than that. As the hotel industry has become more and more sophisticated over the years with yield management technology and go-direct incentives, there are levers to play that put hotel RFPs out to paleoanthropological pastures. Progressive buyers have learned to spot buy portions of their hotel program rather than working to leverage every hotel spending dollar. In other words, they think like hoteliers and buy through the hoteliers' lens.

BACKGROUND/PROBLEM STATEMENT

It is important to note that the objective of this paper is not to disregard and toss out the traditional hotel RFP process. Rather our objective is to identify progressive alternatives that supplement the tried and true approaches in a way that supports both the buy and supply side of the equation. Before we delve into new and creative solutions, let's first take a look at the fundamental realities of the hotel industry. Probably the most enlightening discussion about the hotel industry I've ever had came twenty or so years ago in a meeting with some of the top executives at Marriott. They explained their basic model as being mostly about real estate investment trusts (REITs).

Their goal was to find untapped real estate markets in close proximity to areas undergoing corporate development, build a hotel that would attract restaurants and shopping, and then sell the hotel with terms that included hotel management services. Simple, clean, in and out.

What we are dealing with here is more a real estate business as it is a hotel business. To that end, we are dealing with potentially disparate market cycles when you look at travel industry cycles and real estate cycles. Over the years, I've tracked travel industry cycles and have found them to run on seven year cycles. At the beginning of the seven year cycle business runs in parallel with local market economies in a chicken and egg pattern. One could say that as the market improves, more money is spent on travel to accelerate growth and as more money is spent the travel industry thrives. Then the market inevitably self-corrects, people and companies become more frugal and the travel industry dives into the next cycle. Alternatively, one could say that accelerated travel feeds market growth until markets self correct and frugality sets in and the travel industry dives into the next cycle. In either case the end of the story is the same with the travel industry diving into the next cycle. Historically for travel these are seven year cycles from boom to bust and back and 2016/2017 is pegged to be the beginning of a new cycle. Notice I'm not calling for a bust period. Hotels and airlines, the drivers of a travel economy, have mastered the art of capacity management which means cliffs become hills and everything else is a speedway.

Real estate, on the other hand, runs in a different set of cycles and is tied to market dynamics unrelated to travel except for areas where tourism dictates the market dynamics. I'm not going to even try to make sense of real estate cycles but the hotel cycles are actually fairly predictable. In the hotel industry growth cycle when you find hotels building, building and building you end up with rooms chasing people which leads to great rates and deals to be had. Then when the demand curve catches up (a la the previous REIT example) you ultimately have people chasing rooms in a sellers market.

When is the last time you saw those factors built into a hotel RFP? Rarely. The closest thing I've ever seen to factoring real estate cycles into rate negotiations was when a corporate client of mine considered opening their own hotel which is an entirely different model to be discussed another day. I'm not suggesting that anyone build their hotel programs around REITs but I am suggesting that somewhere in

the conversation there is an understanding about this dynamic that is taken into consideration during the modeling.

Now consider the perspectives of hotel owners versus their management companies. When you are negotiating with a hotel you are dealing with the owners who subscribe to series of brand management company services. As managers in business travel we tend to look at things the way our B2B partners with the brand management companies look at things. It's easy to forget how our B2B partners also have B2C colleagues having similar conversations with their brand management company subscribers.

About a decade or so ago, I did some work with the InterContinental Hotel Group (IHG). I was invited to speak and participate in a panel discussion at an IHG European Hotel Owners conference that was convened in Athens. During the panel discussion I was joined by a major TMC supplier relations executive and a procurement officer from a Fortune 50 company. We were posed with several questions about supply and demand, consumer and corporate marketing, technology innovations and social networking. We, along with the audience, were given hand-held devices to use in responding to each question and results were derived in real time. Responses from the panel were then compared to the audience of hotel owners. With not a bit of exaggeration, there wasn't one response that wasn't diametrically opposed between the panel and audience. Not one question response was aligned. The hotel owners thought like consumers and the panel thought like corporate travel people and it was clear that on that day never would the tween perspectives meet. We can never forget that while business travel is big business with its own complexities, the hotel business isn't just business travel. The decisions that go into pricing decisions take into account business travel, often a loss-leader, consumer travel, meetings and events and all of the complexities that go into each of those segments.

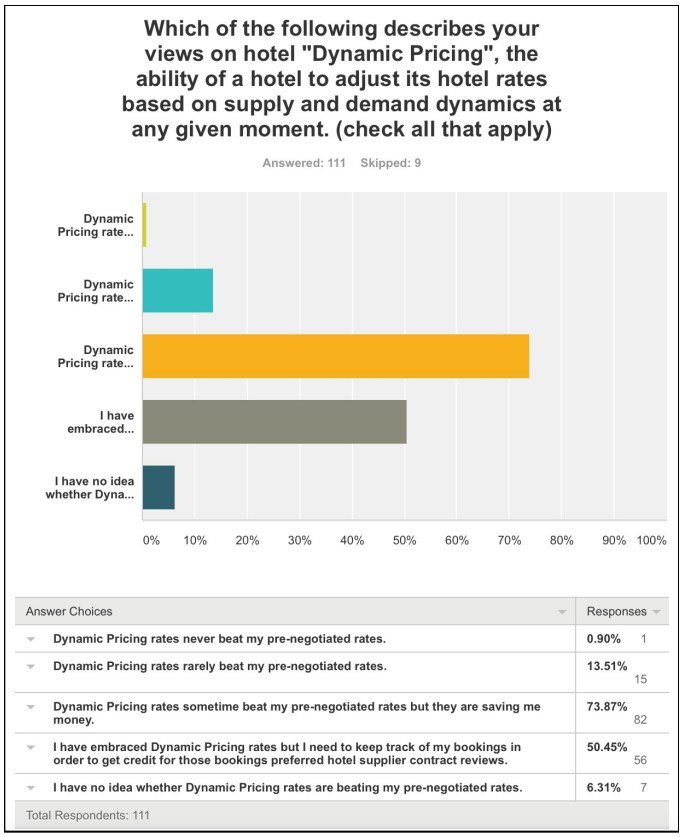
So let's bring this conversation back to dynamic pricing. Dynamic rates are a great thing for the hotel world and a worry-some thing for traditional corporate buyers. The key here is to make dynamic pricing a great thing for progressive buyers with the courage to surf whatever are the du jour market dynamics. Simply stated, dynamic pricing for hotels is a yield management process that enables a hotel to determine how much they are able to charge at any given moment depending on their current capacity, revenue per room, spend per guest, meetings (and food and beverage…F&B), and anticipated

business from contracted corporate clients. To that end, dynamic pricing isn't designed to save anyone money. But then again, negotiated rates from hotel RFPs aren't designed to save anyone money either. Much like airlines have the ability 333 days in advance of any flight to adjust prices hundreds of times per day for any given seat tied to a broad set of variables, so too are hotels now able to set their pricing. The difference is that there are many more moving parts in the hotel world than in the airline world. In both cases, however, the most perishable commodity is an empty airline seat or hotel room that goes from being potentially hundreds or thousands of dollars to zero as soon as the door on the closes. The game is to get as much as you can for your offering and know when you need to cut your losses through discounting.

Bringing the conversation back to hotel RFPs and corporate hotel programs, lets try to understand exactly how much there is to gain or lose for a corporate buyer who wants predictability in their hotel spend but doesn't want to spend more than they have to on any given day. I'll start by sharing with you an experience I had with a client of mine who was managing a corporate travel program for a Fortune 20 company. He was concerned that his travel management company wasn't booking at the hotels where he had negotiated some aggressive rates largely in the San Francisco Bay area, which is currently among the most competitive markets in the hotel space. His concern stemmed from a conversation he'd had with one of his top hotel partners who was saying that their volume was down with his company when in fact travel was up significantly to San Francisco and this hotel was one of his travelers' favorites. On top of that, his travel management company reports reflected activity at the hotel that were much higher than what the hotel was showing. My theory was that his travelers, and probably his travel management company, were booking market rates that were lower than the corporate rate he'd negotiated at the same hotel. Those rates wouldn't necessarily include the requisite corporate rate code and therefore would not be tracked by the hotel as coming from his company.

So with that backdrop, we determined that the only way we could get to the bottom of the issue was to make test bookings. We spent two hours in his conference room booking hotel rooms at a variety of his preferred properties through various channels including his travel program portal, the hotel program portal and directly and various consumer booking channels. Amazingly, his negotiated rate was beaten more than fifty percent of the time over a range of dates.

Naturally he had Lowest Rate Availability (LRA) provisions and caps built into his contracts with these hotels but none of that ended up mattering because the hotel couldn't tell they were bookings coming from my client.



Answer Choices	Responses	
Dynamic Pricing rates never beat my pre-negotiated rates.	0.90%	1
Dynamic Pricing rates rarely beat my pre-negotiated rates.	13.51%	15
Dynamic Pricing rates sometime beat my pre-negotiated rates but they are saving me money.	73.87%	82
I have embraced Dynamic Pricing rates but I need to keep track of my bookings in order to get credit for those bookings preferred hotel supplier contract reviews.	50.45%	56
I have no idea whether Dynamic Pricing rates are beating my pre-negotiated rates.	6.31%	7
Total Respondents: 111		

So here's the net result:

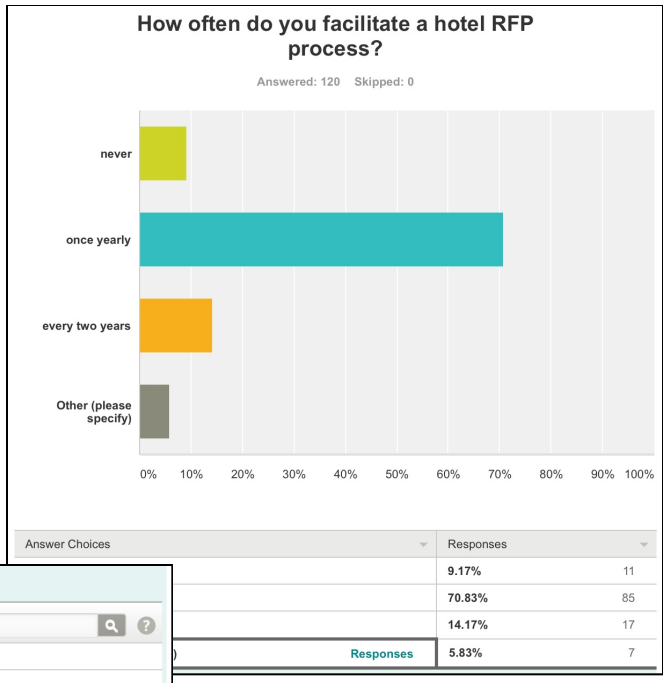
- the hotel got the bookings from the client
- my client saved money on dynamically priced rates that were lower than what he had negotiated
- the travel management company did the right thing by booking the lower rate…but wait a minute!

Wait a minute? Yes, the travel management company booked the right rate but also collected commission on those rates while the corporate negotiated rate is non-commissionable. The hotel wasn't happy about paying commissions that they shouldn't have had to pay and my client is wondering where the commission share went. In the end, everyone ended up happily ever after on this episode but the big take-away for me was the WTH (What the Heck!) moment! The extent of this dynamic was not captured anywhere in my client's hotel RFP processes and this was a BHD (Big Hecking Deal!)! Now I'm wondering what else are we missing?!

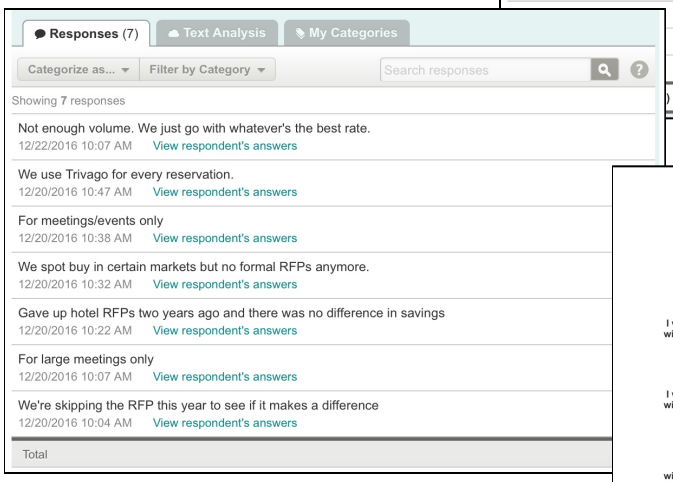
SOLUTIONS

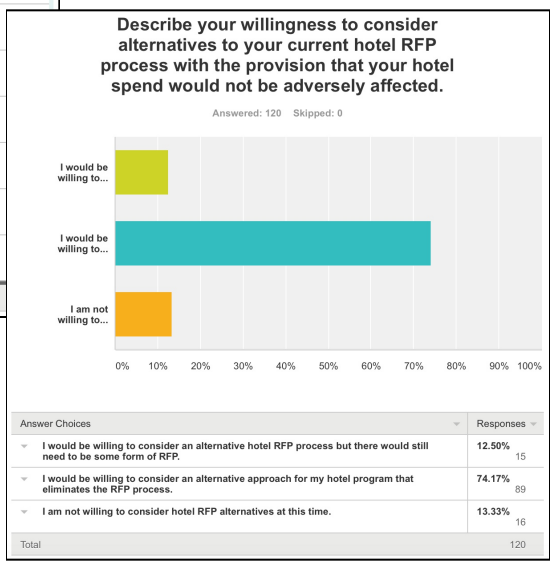
Okay, we have now presented more than enough credible evidence that the traditional hotel RFP process leaves at least a bit to be desired. So where do we go from here?

Let's take a look at some new alternative solutions to at least supplement the tried and proven almighty hotel RFP process. Here's what we have determined thus far:



- The traditional hotel RFP process is loved by no one (hotels hate it, travel managers/buyers hate it, so why?!) and negotiated rates are ofter marginalized by current market dynamics.
- Spot buying and playing the market as a strategy is risky for travel managers/buyers but these approaches need to be somewhere in the balanced equation.





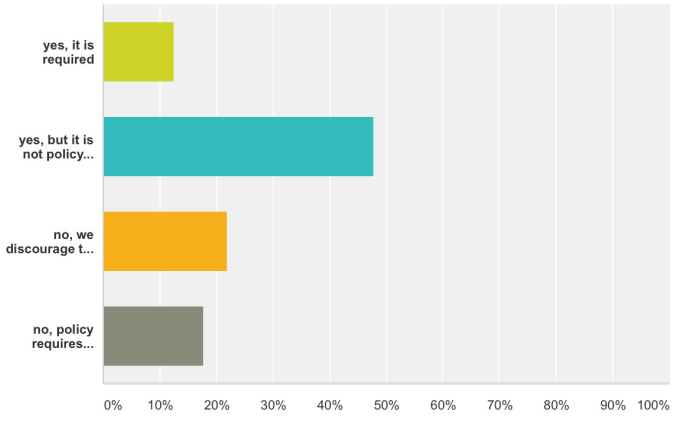
- Many of the lowest prices in the dynamic pricing scheme involve non-refundable rates which are good for some but not for all. There are hotel products heretofore mostly limited to the consumer travel space that may have relevance in the corporate sector.
- Pre-negotiated corporate rates remain an effective approach to hedging hotel rates when they create wins for all. But wins for all require incorporating market dynamics and the pricing that comes with those considerations.

CONCLUSIONS

Let's have a look at how our survey respondents view non-refundable hotel rates. Not surprisingly very few company policies require the use of non-refundable rates. On average, business travel plans changes 1.7 times on any given transaction and the downside outweighs the benefits. With that said, there are programs in the consumer marketplace (i.e. Roomer/Life Happens rates) that enable travelers to take advantage of non-refundable level rates while hedging the penalty. They also provide a venue where people can resell their non-refundable rooms at deep discounts. So, in the end, we are not suggesting a carte blanche "out with the old and in with the new". At least not exactly. The conclusion to be drawn from this paper is to simply not limit yourself to the tried and true and to courageously try new approaches.

Does your travel policy require the consideration of hotel rates that are non-refundable or that have cancellation fees?

Answered: 119 Skipped: 1



Answer Choices	Responses	
yes, it is required	12.61%	15
yes, but it is not policy mandated	47.90%	57
no, we discourage the use of rates with any cancellation fee	21.85%	26
no, policy requires booking the lowest fully refundable rate	17.65%	21
Total		119

To that end, here are my recommendations for refreshing your hotel program:

- Limit hotel RFPs to areas where the competitive dynamics have changed. For example, in areas where new hotels have sprung up and changed the competitive landscape, give the new entrants a chance to compete while embracing existing partners. For the balance of your program, reach out to your existing partners and understand how you may be able to reduce expenses by supporting their distribution challenges. At the very least, you don't want to be increasing your expenses 3-5% year-on-year!

- Give consideration to non-refundable rates in conjunction with a company like roomertravel.com. Whether you take advantage of their "Life Happens" rate tier or utilize them to buy/sell non-refundable rooms, I believe you will find opportunity.
- Understand the dynamic pricing undercurrents in your hotel program. The balance is delicate. Ask yourself how important predictability is compared to statically proven savings more than 50% of the time. Remember, taking advantage of dynamically priced rates is only part of the battle. You need to track that activity like you do all of your other hotel activity and make sure that the hotel is accounting for your stays and that your travel agency/travel management company is collecting/sharing the revenue from commissionable hotels.
- Be cautious with transient home rental programs. The uber-economy works great for ground transportation but the home rental market is completely different, particularly as it relates to duty-of-care. If apartment living or more "home" like alternatives are what your travelers are seeking, have a look at the burgeoning extended stay furnished apartment market. In this environment you contract specific accommodations that you know fit your duty-of-care standards and contract with a company to manage guest rotations. Typically this will work in areas where you have a high concentration of travel and average stays range from 3-5 days.

About ROOMER and the In The Black Group

Roomer offers hotel alternatives at rates comparable to non-refundable hotel rates. They also offer a platform that enables corporations to resell rooms booked at rates comparable to non-refundable rates. For further information, please visit:

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The data accumulated in developing this paper was gathered in a completely unbiased fashion. The editorial comments belong to Ron DiLeo and the **In the Black Group** and are independent of the **roomertravel.com** sponsorship. Data gathered for the charts came from a survey facilitated by the In the Black Group in December 2016 which was distributed to 375 corporations.