# SMARTER BUYING

## How to build a better hotel program

This paper is intended to help you get the most from your hotel spend, whatever its size – whether $100K or $100 million, this guide will give you simple, proven ideas and techniques to help optimize your accommodation program.

To help identify the information and ideas most useful to you, we have color-coded sections as **fundamental** for those who are relatively new to managed travel, **intermediate**, and **advanced** for seasoned travel buyers with mature programs.

## The Hotel RFP

The request for proposal (RFP) season looms on the horizon. Love it or loathe it, the RFP is here to stay...for now, at least.

Start with a simple checklist of what you need ahead of issuing your next hotel RFP:

- Spend & volume data
- Travel & expenses policy
- Your organization's business plan for the next 12-24 months
- Industry reports, including the American Express GBT Hotel Monitor
- Your travel management company (TMC) contact details
- Hotel supplier contact details

## Know your program

You need to understand how your organization is perceived by suppliers. Can you be specific with them on how much, where, and when you spend?

- Is the spend closely managed with specific hotels that travelers can book – i.e., a mandated or managed program?
- Is it based on price limits? Can your travelers choose from a wide range of hotels as long as the rate is at or below a set limit (known as a city cap)?
- Do your travelers have the choice of any hotel (within reason) in a city? This is known as a traveler-led program.

Understanding your program is vital for how you engage with the suppliers. The more control you have, the better leverage you have – therefore, the better rates you should be able to access. If you can clearly demonstrate to a supplier that you book 1,000 rooms a year in a specific city and will only use three hotels as opposed to 10 hotels, your RFP must reflect this to get the best rates (and then you should actually only use those three hotels – credibility is everything).

## Communicate and collaborate

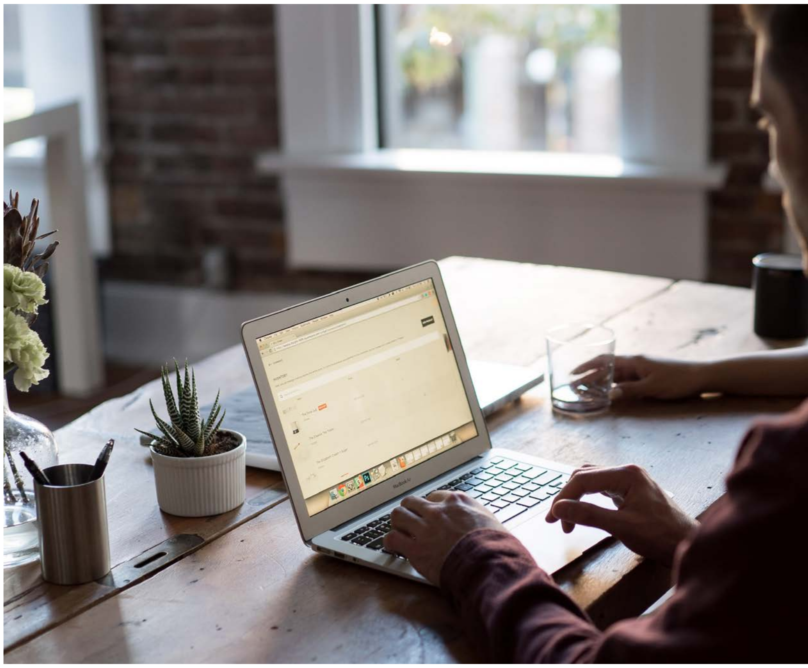
If you agree on a price for a certain number of bed nights over a year, then the hotel will expect you to meet these numbers. If your business conditions change, talk to the hotel and explain the situation.

Look to understand your hotel supplier's business objectives for the next 12 months. For example, if they are looking to improve food and beverage revenue, can you support them by encouraging your travelers to eat at the hotel in which they are staying? In return, see if the hotel can provide attractive meal offers for your travelers, who are then more likely to support this initiative and engage with the program.

Work with your TMC to understand your data – not just on room volumes and spend, but all other associated expenses, including meals, meetings and client entertainment. Look for suppliers that will help you leverage this spend against the total room spend to really drive down costs and improve your traveler experience.

## When did you last benchmark your policy?

Is it current, such as allowing employees to use serviced apartments or "sharing economy" providers? Some policies that have not been updated still allow employees to claim for the cost of incidentals, such as newspapers, faxes and telephone calls. Look at permitted limits for meal allowances and what they include, such as alcohol or tray charges for room service. Ask your TMC to help you regularly benchmark policy: check allowance amounts against your peers and other industry sectors, and follow best practice wherever possible.



## Be clear on your objectives

If taking cost out is your key driver, be clear on how you expect the hotels to meet this expectation, and what you are prepared to offer in return. For example, you can limit the number of hotels used in a location. Also look at options such as dynamic pricing (see p5) and independent properties – are you making the most of your TMC's range of content?

Also consider serviced apartments for longer-term stays. As well as savings on expenses such as catering and laundry, in some circumstances, serviced apartments offer tax savings such as VAT reduction in the UK for continuous stays over a certain period.

Hotel stays are inextricably linked to meetings. With a wide choice of free and paid-for online conference tools available, look at where face-to-face meetings are essential or highly valuable to the business – and where virtual meetings could help reduce spend on hotels and other travel-related costs.

## › Identify and manage your hotspots

This is where spend data combined with industry knowledge is invaluable. Irrespective of the amount you spend, managing your hotel hotspots is crucial. A good example in Europe is Dublin. Prices are forecast to grow by 7%, and this upward trend shows no sign of slowing down. Where occupancy levels are very high, these are strategies you should consider:

**Identify your business travel locations where supply is higher than demand –** here suppliers will be keen to win your business. Can you offer hoteliers volume in these locations in exchange for lower rates in your hotspots? This is where good spend data and an up-to-date T&E policy really can work for you.

**Identify the peak nights in your hotspot locations:** Typically, Tuesday and Wednesday nights are the busiest – is it possible to avoid these nights for those meetings that are moveable, such as internal meetings? Look at Monday and Thursday night stays (known as “shoulder nights”) where possible – these are likely to be quieter and cheaper.

**Where hotel stays are linked to meetings,** look to hold those meetings around the Monday and Thursday shoulder nights. Booking meetings for these days can often mean availability is better and meeting room hire costs are lower (sometimes by as much as 30%).

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## Pricing options

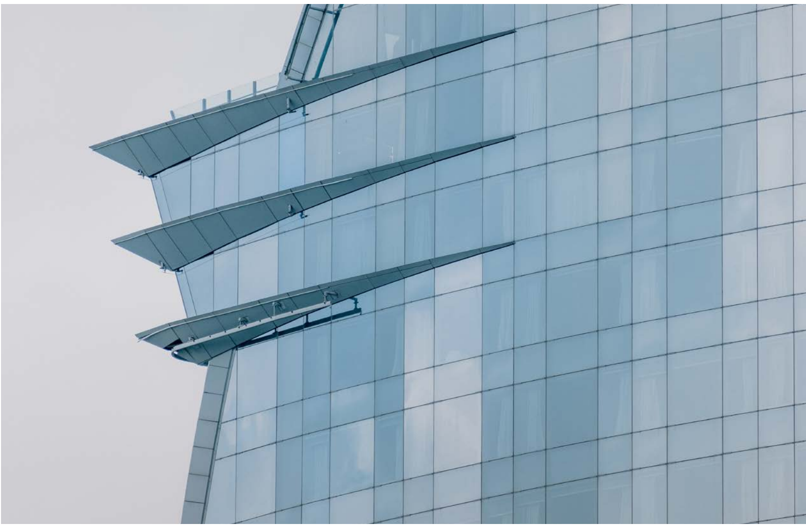
How you manage your spend and how many hotels are used will largely determine what pricing methods you will use. Talk to your TMC about the advantages of fixed or dynamic pricing as well as lowest logical rate strategy, city caps, and other options.

Once you have agreed on your prices, the next challenge is accessing the agreed rates when the hotel is busy. Part of your negotiation needs to focus on access to inventory:

1. Ask for rates that are either LRA (Last Room Availability) or;
2. Agree on an allocation of rooms per night that are held for your employees to book (within agreed timelines)

LRA or allocation is only required in cities where occupancy levels are high and should be regularly reviewed to ensure you are utilizing them. Don't be afraid to change them as your business needs alter – it shows your suppliers that you have good controls in place.

**Which pricing model should you use?**
Some organizations want certainty and consistency on cost, so will opt where possible for fixed pricing. There is often a minimum volume level needed for fixed pricing to apply. You may opt for dynamic pricing, which simply means you receive an agreed % discount off the hotel's Best Available Rate (BAR). You can blend these two models: fixed for high-volume locations, with dynamic in low-volume or ad hoc locations.



## Fixed or dynamic? Pros and cons

Fixed pricing offers rate certainty. Fixed pricing is also consistent and helps organizations manage travel budgets and individual project costings. The downside can sometimes be when market rates go down or seasonal changes occur and rates drop below your fixed price. But when market rates and seasonal prices are higher than the fixed price, you are protected. You really need to look at your data, stay profiles and budgeting requirements to fully understand what you need.

Dynamic pricing works well when you have lower volume, are happy to flex up and down with the market, and when you have ad hoc requirements. But it does mean that forecasting and budgeting travel costs and projects are less straightforward.

When looking at pricing options for your RFP, work with your TMC: Look at your spend data, stay profiles, locations and business budgeting requirements to fully understand what options would work best for you.

## Base accounts

Hotels that rely on business travelers need "base accounts". Organizations that have travelers who regularly use hotels all year-round are desired by hoteliers; these are known as base accounts. For hotels, these accounts provide a solid level of income that covers the operating costs of the hotel in a similar way to how airlines price some tickets on aircraft. If you have small regular volume spread across the year, don't assume this option does not apply to you. Hotels will often prefer a number of smaller-volume base accounts than one or two large accounts, as this spreads the risk. Make sure you look at this as an option for getting the best rate. Areas where supply is higher than demand are great locations for this approach.

## Blackout periods

Hotels may look to include blackout periods. These are agreed periods when your negotiated rates do not apply. In London, a typical example of a blackout period – when you would be subject to market rates – is Wimbledon tennis fortnight. Make sure you limit these periods to a maximum of four in any one calendar year. Limiting blackout periods is key to controlling costs and ensuring you have maximum access to rates in key cities.

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## Learn from others

Organizations have to adapt when external factors affect their profits and even their survival. The financial crash in 2008 and the more recent price volatility affecting the oil and gas industry are good examples.

Companies in these sectors had to make changes to where their travelers stayed, the prices they paid, and how they bought travel. They needed very agile travel policies and this has meant using alternative hotel tiers and brands, including independent properties. They have made considerable cost savings and continue to do so. Other organizations could certainly benefit from evaluating these changes and exploring how to adapt them to fit company cultures and objectives. Don't just copy and paste – copy, adapt and paste.

And as always, talk to your TMC. A good TMC will have the knowledge and data to advise on how to apply others' best practices to your program and can benchmark your performance against your own and other sectors.

Your TMC should also help you understand your data and spend patterns, streamline booking processes, audit your program to drive compliance and savings, offer the widest choice of accommodation content on one platform, optimize leverage with suppliers and support your travelers on the road.

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## › When to go to market

The hotel RFP season is typically September to December. During this time, hotels are often inundated with RFPs or pricing requests, and the sales and bid teams spend thousands of hours responding. It can be a good idea to move out of this very crowded period and wait until January: Hotels have more time to respond and have a clearer picture of how their revenue forecasts are looking. Other benefits include accessing rates at hotels that have lost some key accounts (especially base business accounts), meaning that you could negotiate some great prices.

GLOBAL BUSINESS TRAVEL

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