BREAK FREE FROM ANNUAL RFPS:

HOW TO SWITCH TO A FULLY DYNAMIC HOTEL PROGRAM TO SAVE MONEY AND WORK SMARTER

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EXECUTIVE SUMMARY

For years, the corporate travel industry has been stuck with a broken hotel procurement process.

No travel buyer jumps for joy at the prospect of participating in a round of requests for proposals to secure supplier agreements. But buyers do it anyway, knowing that at least for most travel categories — air, ground transportation, card, expense provider — they won't have to repeat the exercise again the following year.

For the hotel category, however, buyers and hoteliers have historically been locked in an annual dance to revisit corporate agreements. The parties seemingly shake hands on a deal in December, only to restart the conversation five months later.

Attempts to change the annual nature of agreements or the types of agreements secured have been made by some companies willing and able to do things differently. However, the corporate travel industry has failed to provide the groundswell of support necessary to overhaul the traditional procurement model.

That could all change in the COVID-19 era.

Many of the things required to make the old process work — historical data, staff support for both companies and hotel properties, confident projections for hotel rates or corporate travel demand — have all been obliterated by the pandemic and subsequent economic downturn. With hotel rates plummeting overnight and expected to remain volatile for the next year or longer, rolling over existing hotel agreements for travel buyers would mean agreeing to pay inflated rates during a time when companies will be required to save every dollar possible.

So what is the way forward for hotel procurement, both for 2020 and into the future?

This white paper examines the challenges posed by the COVID-19 crisis and puts forth a new way to secure corporate hotel agreements in the future: Adopt a program built on fully dynamic rates that is powered by automation to both adjust the rates and renew them each year.

Looking at the current environment for both hoteliers and companies — reduced resources, need to capture value, inability to forecast — this paper concludes that corporate travel programs and hoteliers would be wise to embrace a new hotel procurement process and finally get rid of the annual hotel RFP.

Hotel programs need a solution that addresses legacy problems:

1. An annual RFP process that is time-consuming, expensive and inefficient
2. Static rates with numerous black-out dates, seasonal adjustments, room type restrictions, etc.
3. The disconnect between agreements made by companies and terms understood by hotel revenue managers for rate availability

And current COVID-19 problems:

1. Ongoing hotel rate volatility
2. Inability to confidently forecast hotel rates, demand or supply
3. Reduced staff at hotel companies
4. Need to keep corporate travel spend low

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IT APPEARED 2020 WOULD BE MORE OF THE SAME – THEN COVID-19 HIT

Heading into 2020, there was a steady-as-she-goes outlook for the global hotel industry.[1]

Gross domestic product growth—a metric closely tied with hotel industry demand and performance growth—was forecast by the International Monetary Fund to rise a modest 3.3 percent year over year globally in 2020.[2] This meant a modest rise in rates for the hotel industry year over year, too.

In the U.S., forecasts from STR, CBRE Hotels' Americas Research and PwC pegged average daily rate growth for hotels to between 1 percent and 1.5 percent for 2020. U.S. corporate negotiated rates were expected to rise 1.5 percent and 2.5 percent year over year, according to an analysis by industry consultant Bjorn Hanson from September 2019.[3]

These factors amounted to a slightly better negotiating position for corporate travel buyers. The decade-long growth cycle of the hotel industry in which sellers could demand rate increases each year from buyers appeared to be flattening out in 2020 and declining in 2021.

Now, however, COVID-19 has annihilated the old narrative.

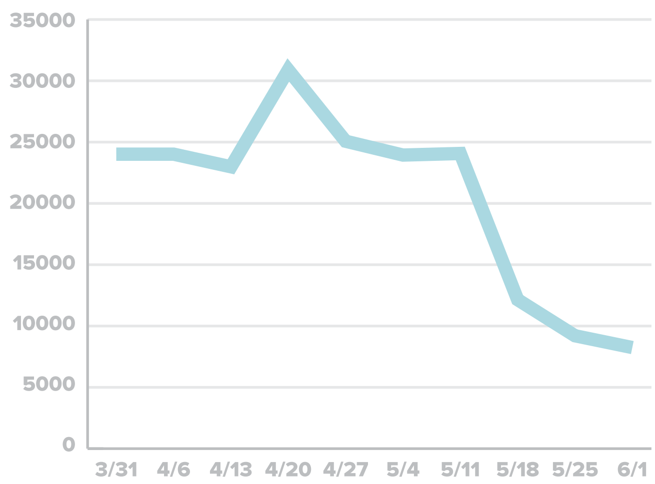
As more organizations prepare for their employees to begin traveling again, albeit in lower numbers than before, travel buyers need to understand where things are today so they can respond now and plan for the future.

Hotels Have Closed

In March, travel restrictions, work-from-home orders and large-scale lockdowns began to take effect in Europe and North America. In TRIPBAM's system, cancellations of corporate bookings began to double year-over-year in early March.

Major global chains and independent hotels closed properties and furloughed staff in response to the rapid lack of demand. TRIPBAM data puts the number of closed hotels around the world at 8,245 as of June 1 and at a peak of 30,890 on April 20.

CHART 1:
This chart illustrates data from TRIPBAM's weekly hotel closures report, which capture how many hotel properties around the globe TRIPBAM has identified as closed or not accepting bookings.



1: *Robert McCune, "5 insights into the 2020 forecast for US hotels," Hotel News Now. Feb. 5, 2020. http://www.hotelnewsnow.com/Articles/300139/5-insights-into-the-2020-forecast-for-US-hotels*

2: *"World Economic Outlook, January 2020: Tentative Stabilization, Sluggish Recovery?" International Monetary Fund. January 2020. https://www.imf.org/en/Publications/WEO/Issues/2020/01/20/weo-update-january2020*

3: *Donna M. Airoldi, "Travel Buyers Gain Power for Hotel RFP Season," Business Travel News. Sept. 4, 2019. https://www.businesstravelnews.com/Lodging/Travel-Buyers-Gain-Power-for-Hotel-RFP-Season*

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Rate Volatility Has Increased

As demand dropped off a cliff, hotel properties compensated by dropping hotel prices. This practice led to wild swings in hotel rates as revenue managers and revenue management systems at hotels worked to adjust to dynamics never before seen in the hotel industry.

TRIPBAM offer rate data sheds light on this volatility. An offer rate is generated when the price for an existing corporate room reservation drops after booking.

For the entire year 2019, TRIPBAM's offer rate across all clients and geographies averaged about 10 percent. By mid-March, the offer rate more than doubled to 21 percent and has stayed at that volatility level through April and May.

Static Negotiated Rates Have Dropped in Value

Static negotiated rates are typically a safeguard against hotel rate spikes — the kind that might occur during a period of high demand, such as a major sporting event. With the sudden drop off in hotel rates caused by COVID-19 travel restrictions, however, static negotiated discounts have significantly depreciated in value.

Before early March, static negotiated rates were saving corporate programs approximately 25 percent on average off the best available rate (BAR). Today, those same discounts are worth less than 10 percent off the BAR on average.

CHART 2:

These charts are based on Hotel Intelligence data for a TRIPBAM client. Each dot represents a hotel property: The green dots indicate a good rate discount when compared to industry peers and market rates, while the red dots indicate discounted rates being bested by peers or market rates. The Before image shows discount groupings prior to March, where the majority of discounts are green. The After image from May, shows the same discounts have now turned red, indicating a significant depreciation in value.

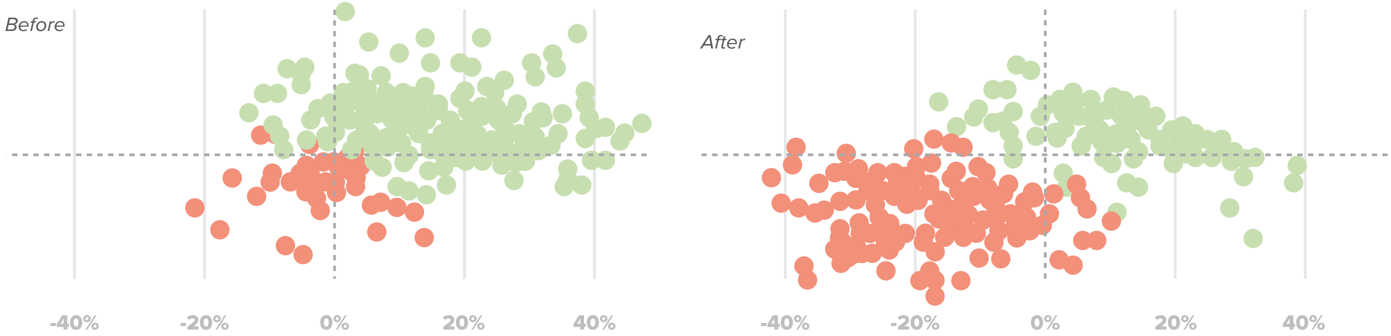

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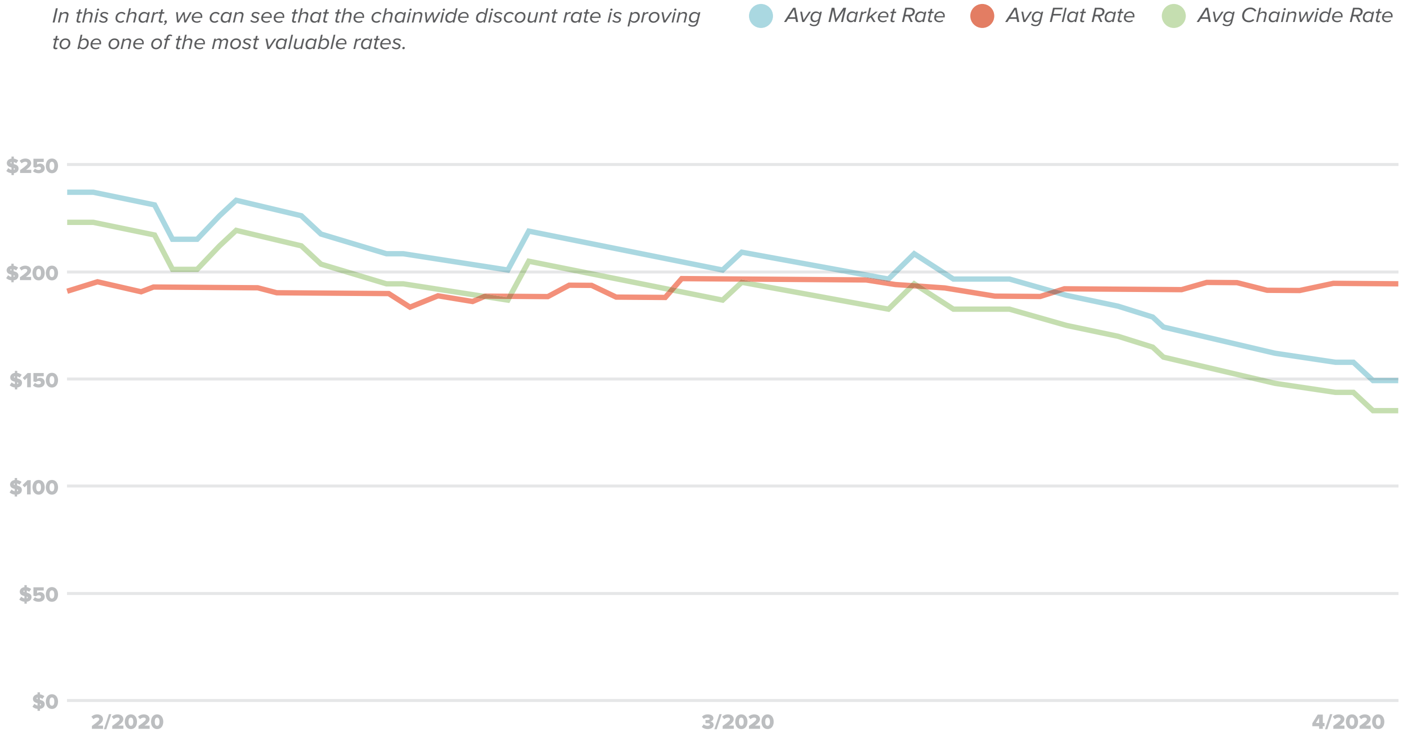
CHART 3:

In this chart, we can see that the chainwide discount rate is proving to be one of the most valuable rates.



In a new twist, chainwide discounts—previously considered one of the least valuable rates to secure—have been proving to be one of the most effective discounts in corporate programs. This reversal comes because the 10 percent discount that comes standard with such agreements is tied to a dynamic, instead of static, room rate. This means that as hotel room prices have plummeted about 35 percent, chainwide rates have simultaneously fallen even further.

The Economy is in a Historical Downturn

In an April update, the IMF altered its global GDP growth outlook for 2020 to -3 percent.[4] The economic downturn caused by COVID-19 is "much worse than during the 2008–09 financial crisis" and the worst since the Great Depression.

No one is sure what the recovery will look like. The IMF places a number of caveats on its own forecast, stating it assumes "the pandemic fades in the second half of 2020 and containment efforts can be gradually unwound." However, it is clear that organizations will be reducing travel, not only out of duty of care, but also because companies everywhere are feeling the pain of the sudden contraction of the global economy.

4: *"World Economic Outlook, April 2020: The Great Lockdown" International Monetary Fund. April 2020. https://www.imf.org/en/Publications/WEO/Issues/2020/04/14/weo-april-2020*

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NEGOTIATING RATES FOR 2021 WILL BE MORE CHALLENGING THAN EVER

On a macro level, hotel industry dynamics stay consistent year over year. Unanticipated events, such as political unrest or natural disasters, can cause drop-offs in hotel demand in a market or region. For the most part, however, there is an acceptable level of predictability that makes the negotiation between corporate travel buyers and hotel companies a straightforward exercise.

This is no longer the case in the COVID-19 era. As a result, buyers will struggle to source corporate rates and discounts using the old way of doing things.

The Data is No Good

Corporate rate negotiations between buyers and hotels are based on the availability of good data.

Buyers come to the table with both historical hotel data and some idea of factors like expected room volume and travel patterns to be able to get hotels to agree to discounts. Hotels, too, come prepared with their own data and projections for the level of rates they could feasibly demand in the year ahead.

Today, both sides have a data problem.

For companies, the impact of the pandemic and the sudden economic downturn means internal travel data will no longer have the same value it once did. Layoffs, travel restrictions and fiscal adjustments will all skew the data.

For hotels, the average daily rate and revenue per available room figures that have climbed steadily upward year over year since 2010 will offer no assistance to predict what rates can be charged in the year to come.

With a lack of usable data, hotel negotiations between buyers and hoteliers cannot follow the traditional approach used in years past.

SIDEBAR

How Hotel Sourcing Has Traditionally Been Done (& Why It's Painful)

Corporate hotel sourcing—known also as hotel procurement, negotiations or requests for proposals (RFPs)—typically occurs on an annual basis. Negotiations span from mid-summer to December, though some companies use an alternative timeline.

Travel buyers source in order to get preferential rates or discounts for their company based on expected room volume at a single property or across multiple properties operated by a chain or management/ownership group.

The negotiated rate or discount is calculated using data on the company's previous year's travel patterns and stay volume, as well as forward-looking data. With the discounts, travel buyers also negotiate guarantees like last room availability, as well as amenities like free Wi-Fi, and breakfast.

Buyers typically use a tiered approach to secure discounts. Static negotiated rates are sought at hotels in markets where the highest volume of room nights is expected, known as "primary markets." Dynamic discounts are sought at hotels in "secondary markets," the next tier down of expected room volume. Buyers at larger companies may also get chainwide discounts to save money in markets where there is some volume but not enough to get discounts with individual properties.

While the RFP process provides cost-savings and protects companies from rate spikes or high-occupancy periods, many in the industry question the value of conducting the exercise annually. Others wonder whether the practice is worth the time and cost involved.

Travelers often stay at hotels of their choosing, regardless of company discounts available elsewhere. Plus, discounts secured through corporate agreements often aren't correctly offered or available to be booked by travelers. TRIPBAM analytics show companies only get a static discount 60 percent of the time, despite having LRA included in agreements.

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Hotel Teams Are Furloughed

The major global hotel chains have opted to furlough or layoff tens of thousands of staff members, both at a property-level and within corporate headquarters.[5] The American Hotel and Lodging Association's stats peg the total number of U.S. hotel industry employees out of work at 1.6 million.[6] With staff expected to be reduced until hotels can profitably begin to reopen, the people needed to make negotiations work on the hotel side simply aren't available.

During a roundtable discussion with more than a dozen travel buyers hosted by TRIPBAM on April 10, individuals revealed their point of contacts at the major chains continued to shift to people at higher levels of seniority because staff furloughs were keeping regular account managers away from the office.

Major hotel chains are not expected to re-hire all furloughed employees. Hyatt Hotels Corp. most recently laid off 1,300 of its corporate employees, a third of the staff at its Chicago headquarters.[7]

Moving forward, hotels will need to find a more efficient way to provide discounts to corporate clients than the traditional means.

Supply & Demand Will Continue to See-Saw

As restrictions across countries and U.S. states lift, it's expected that many hotels will come back online (this is shown to already be happening, according to TRIPBAM data outlined in Chart 1). However, this gradual opening up—and potential closing again should another outbreak occur—will continue to create some difficult-to-navigate dynamics.

In a single market where restrictions are lifted, there is likely to be a period in which demand overtakes supply as hotels work to reopen with new or returning staff and under new hygiene standards. In that same market, should more hotels come online before populations feel completely comfortable traveling again, there is likely to be a time when supply surpasses demand.

The severe economic downturn that's occurred as a result of the pandemic is expected to reduce hotel demand in the long term. Research provided to TRIPBAM projects U.S. hotel volumes will hit 60 percent of 2019 volumes by year end 2020 and 80 percent of 2019 volumes in 2021. CBRE Hotels Research in its June Hotel Horizons report forecasts U.S. hotel demand won't recover fully until 2022. In the meantime, hotels that were already under construction to match previously projected demand will continue to be built, further widening the gap between supply growth and demand growth.

This interplay between demand and supply on a market-to-market basis will lead to unpredictable conditions around rate and room availability in the years ahead.

5: *Craig Karmin and Esther Fung, "Marriott, Hotel Owners Furlough Thousands of Workers, Cut Staff," Wall Street Journal. March 22, 2020. https://www.wsj.com/articles/marriott-to-furlough-thousands-of-corporate-jobs-in-u-s-and-abroad-in-response-to-travel-collapse-11584834631*

6: *"Covid-19's Impact on the Hotel Industry," American Hotel & Lodging Association. Accessed May 8, 2020. https://www.ahla.com/covid-19s-impact-hotel-industry*

7: *Lori Rackl. "Hyatt to cut 350 employees at its Chicago headquarters as part of wider layoffs prompted by the COVID-19 pandemic," Chicago Tribune. May 12, 2020. https://www.chicagotribune.com/coronavirus/ct-coronavirus-chicago-hyatt-layoffs-0512-20200512-53adbas5h5g7nniuaira6lomxm-story.html*

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Rolling Over Rates is Not an Option

In the face of these difficult dynamics, some have said the best response would be to roll over negotiated rates from 2020 to 2021 and opt out of a hotel RFP season this year. A recent endorsement from the Global Business Travel Association recommended this to the corporate travel industry.

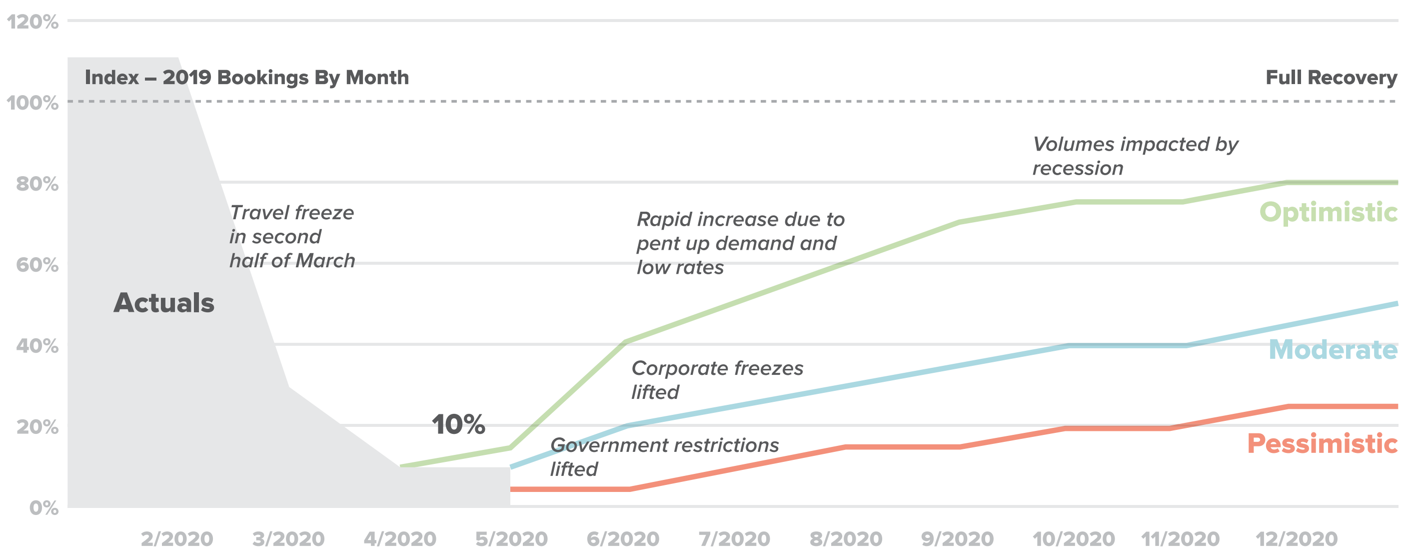
However, opting to retain negotiated rates and discounts established prior to COVID-19 would mean corporate buyers are agreeing to pay what will likely be above-market-rates for the next 18 months. CBRE's June forecast anticipates average daily rate at U.S. hotels will fall behind 2019 levels until 2024. Paying more instead of less runs counter to the spirit of corporate hotel sourcing and could lead travelers and company executives to question the value of a hotel program at any organization where the buyer chooses to roll over rates.

Travelers challenging the value of negotiated rates has already been a chronic problem for the hotel category that's led individuals to book directly on online travel agency or brand.com sites. This situation will become worse if negotiated rates are consistently higher than the rates found on consumer sites.

For the hotel side, rolling over agreements locks in pre-COVID-19 market share dynamics, hindering competition and the opportunity to gain new corporate customers.

While it may be tempting to press pause on managing hotel programs, it is simply not a good or viable solution for the corporate travel industry to kick the can down the road to 2021 and pay above-market-rates in the meantime.

CHART 4:
This chart uses a combination of TRIPBAM analytics data and analyst research to project hotel booking volume recovery.



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EMBRACE A NEW WAY TO SECURE CORPORATE HOTEL AGREEMENTS

With these never-before-seen hotel dynamics expected to continue into 2021 and 2022, corporate travel buyers are looking for alternatives to the old systems and processes.
Switching a corporate hotel program over to dynamic discounts entirely — instead of static negotiated rates — could be a game-changing move that helps companies secure more appropriate rates for 2020, weather the continued uncertainty for 2021 and eliminate the need to conduct annual hotel RFPs for years to come.

But Hasn't Fully Dynamic Failed in the Past?

The desire to avoid annual hotel RFPs has led buyers in years past to try to move beyond negotiating static rates and test the waters of dynamic discounts. Similarly, hoteliers have been pushing more buyers to try to convert to dynamic discounts in recent years instead of static rates because they said it provided better value to both sides.

Yet, the movement toward dynamic never really gained momentum. There remains a lack of trust among companies that hotels will properly apply dynamic discounts. Other obstacles cited by those unwilling to make the jump include lack of budgeting visibility; technology limitations on the hotel or corporate side to load dynamic rates; lack of ability to make travelers understand dynamic discounts; commitment to the status quo by third parties that facilitate hotel sourcing; and lack of auditing power on the corporate side to ensure hotel discounts are correctly applied.

A travel buyer representing one of the world's largest technology companies said their program tried to make the switch, but was only able to convert about 60 percent of the company's preferred hotels to dynamic discounts.

The pre-pandemic reality was, as long as companies could secure auditable static rates that fell well-below market rates, it still made sense to stay the course.

However, a few years ago EY's global head of travel, meetings and events Karen Hutchings decided it would be worth cutting the traditional hotel RFP in favor of giving time and cost savings back to her travel program.

SIDEBAR

Terms to Know

Last room availability.
Abbreviated to LRA, last room availability is meant to ensure that as long as a room is for sale at a hotel property, a company with an agreement at that property should be able to book that room at their negotiated rate without restrictions or alterations. These agreements, while valuable in theory, are not always properly honored by hotels.

Static negotiated rates.
This rate type ensures that company travelers are able to book an agreed-upon flat rate, which ideally should be at least 20 percent below the average market rate at that hotel property. These discounted rates are typically secured by companies at the hotels where they expect to have the highest volume of room nights.

Dynamic discounts.
This discount type is based on an agreed-upon percentage off the best available rate (BAR) at a hotel property at the time of booking. These rate types are meant to follow the market. They are non-commissionable.

Chainwide discounts.
This discount type is similar to a dynamic rate except it is for a shallower discount, about 10 percent usually, and it applies across a chain of properties. Individual properties can also opt-out of providing the discount. It is also typically non-commissionable.

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She instituted a fully dynamic hotel program using chainwide discount agreements. If a hotelier wanted to appear as a preferred hotel in EY's booking tool, all it had to do was stay below an established market cap. Each market cap was calculated using benchmark data and shared with the property in advance.

EY also used TRIPBAM analytics to audit the program and re-shopping to secure savings when hotel rates dropped post-booking. In the first four months of EY's new dynamic program, TRIPBAM re-shopping delivered $1.3 million in gross savings.[8]

The move by EY opened the eyes of both companies and hotels and paved the way for other programs to follow suit. The change has nevertheless been slow-going as programs with fewer resources and lower hotel volumes resolve how to replicate the methods of EY in their own programs.

What Does Effectively Switching to Fully Dynamic Entail?

For corporate travel buyers who want to make the switch from static negotiated rates to dynamic discounts and eliminate future annual hotel RFPs, it's important to make some key adjustments to the sourcing approach. With hotels, buyers should secure agreements that allow for:

- **Automatically renewable discounts.** Agreements can be terminated by buyers or suppliers, but agreements should automatically renew each year without negotiation as long as both parties are happy with the established deal.

- **Removal of blackout dates, seasonality and room-category restrictions.** Last room availability (LRA) must mean a discount is applied 100 percent of the time, across all room categories and across all check-in dates.

- **Use of benchmarked rate caps and rate targets** that are shared in advance with the suppliers. Rate caps protect during high-occupancy anomalies in a market—such as Dreamforce in San Francisco or SXSW in Austin, Texas—and should be defined by market rates for the appropriate hotel chain scale (star-rating) by market and by month. Target rates are meant to nudge a traveler to select an appropriate rate and are based upon the average booked rate within a market or the average booked rate based upon companies of a similar size.

Within their own program, buyers should adopt methods and third-party tools that allow for:

- **Real-time discount auditing for every booking.** Each hotel booking should be monitored to ensure that negotiated discounts are properly given and applied against the correct benchmark rate. Doing this will not only make sure the program is working properly but also help travel buyers to spot hotels that chronically break agreements.

- **Shifting share to alternative hotels** by pushing travelers to the properties that honor agreements and properly calculate established discounts. TRIPBAM data has shown that travel managers with an ability to shift share generate double the amount of savings from their hotel program. It's critical that travel buyers establish this capability to not only maximize savings for their organizations, but also guide travelers toward properties with newly adopted cleaning certifications to enhance duty of care.

Adopting these methods will allow travel buyers to realize a fully dynamic program and overcome the obstacles of trying to make dynamic discounts work in the past.

8: *Julie Sickel, "EY Overhauls Hotel Procurement," Business Travel News. July 9, 2018.*
https://www.businesstravelnews.com/Procurement/EY-Overhauls-Hotel-Procurement

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Benefits of Going Fully Dynamic for 2020/2021 & Beyond

Beyond helping corporate travel programs overcome the challenges posed by the COVID-19 recovery, companies can realize longer-term benefits by switching to dynamic rates.

1. **No need for annual negotiations.**
By allowing for an automatic rollover of the majority of corporate rates, the need to spend months negotiating with hundreds or thousands of individual hotel properties each year disappears.

2. **No annual budget needed for hotel RFP tools or project-based consulting.**
The money paid out to third-party consultants and RFP technology tools as part of the annual RFP process can be spent elsewhere or collected as savings within a travel program.

3. **Program automatically adjusts as demand and supply changes.**
As it will be impossible to predict what rates will in each market for the remainder of 2020 and into 2021, using dynamic discounts instead of static rates will prevent companies from paying above-market rates as volatility continues. Rate caps serve as a safeguard against unexpected rate hikes.

4. **Hotels can be added or removed as needed.**
Dynamic discount programs by nature are more nimble than static negotiated programs. A fully dynamic approach will allow companies to add hotels as needed to accommodate changes in travel patterns, workforce or policy. Third-party tools can assist in identifying where new agreements would be useful and where existing agreements should be terminated. Furthermore, in cases where agreements aren't being properly honored by specific hotel properties, such agreements can be spotted early and withdrawn to minimize lost savings.

5. **Save more money than a traditional program.**
For most companies, a program based on static rates generates around 15 percent in overall savings. A dynamic program can generate more than 20 percent savings if done correctly. Additionally, buyers can secure discounts at a greater number of hotels and improve last room availability, which increases traveler adoption of the corporate program.

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IT'S NOT THE TRADITIONAL WAY
IT'S THE TRIPBAM WAY

For the past eight years, TRIPBAM has worked with more than 2,000 clients to build a suite of solutions designed to ease the transition away from legacy hotel procurement processes toward a more dynamic approach. It's time to say goodbye to the outdated, traditional way and say hello to The TRIPBAM Way.

1 Swap out static negotiated rates with dynamic discounts calculated using TRIPBAM data. TRIPBAM Smart Sourcing provides an easy, two-click process to send a new proposal to preferred hotels. Accepted agreements ensure 100% LRA and automatically renew each year.

2 Use TRIPBAM daily rate auditing to track all discounts, static or dynamic. TRIPBAM Hotel Intelligence grades hotel performance so hotels that don't correctly apply discounts can be swapped out of the program.

3 Calculate cap rates and target rates automatically with TRIPBAM Hotel Intelligence. Rates are based on historical data and program size and are easily imported into online booking tools.

4 Notify travelers automatically when new hotels are added to the program or additional savings opportunities are available using TRIPBAM's Smart Share Shift.

5 Should limited internal resources hold you back from making the switch to fully dynamic, take advantage of TRIPBAM's network of Certified Consultants ready to provide the staff and expertise to make it happen.

CONCLUSION

Newton's first law of physics says that in order to stop an object on a set path, a force must be applied.

For years, the corporate travel industry has been talking about a way to break free from the traditional process to secure corporate hotel agreements. For both buyers and hotels it takes up time, it takes up resources and the value it gives back to either side in return is a never-ending topic of debate. Yet talk has remained just that: talk.

The inertia of a decades-old way of doing things has kept industry practitioners from taking action to change hotel sourcing.

COVID-19 has now proven to be an unexpected and unequalled force in the history of the travel industry. The accurate data, confident projections, staffing levels and volume visibility required to make traditional sourcing work are not available and will remain unavailable for the foreseeable future.

It's time to use this disruption as an opportunity to explore a new direction.

Embracing dynamic rate agreements will save buyers and hoteliers much-needed money and time in 2020 and 2021. In the longer term, this shift will help to move the industry away from the annual RFP model, freeing up parties on both sides of the negotiating table to innovate for the benefit of all.

About TRIPBAM

TRIPBAM is the leading technology provider for reducing hotel costs and optimizing hotel programs. Using our patent-pending automated shopping processes, advanced analytics and benchmarking, companies can save up to 20% on their hotel spend, all in a customizable way to accommodate all corporate cultures.

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