BREAK FREE FROM ANNUAL RFPS 2.0:

WHY ADOPTING A DYNAMIC HOTEL PROGRAM IS MORE POSSIBLE (AND CRITICAL) THAN EVER

NOVEMBER 2020

EXECUTIVE SUMMARY

When TRIPBAM released its white paper in June 2020, it provided guidance on how travel managers could respond to volatile market dynamics by converting static negotiated rates to dynamic discounted rates. Since then, new developments have hit the market, presenting a fresh set of opportunities for buyers to consider.

In Break Free From Annual RFPs 2.0, updated recommendations reflect slower-than-expected industry recovery from COVID-19 and actions taken by the major hotel chains in recent months to convert static negotiated rates to dynamic rates on a property-to-property basis across most corporate travel programs.

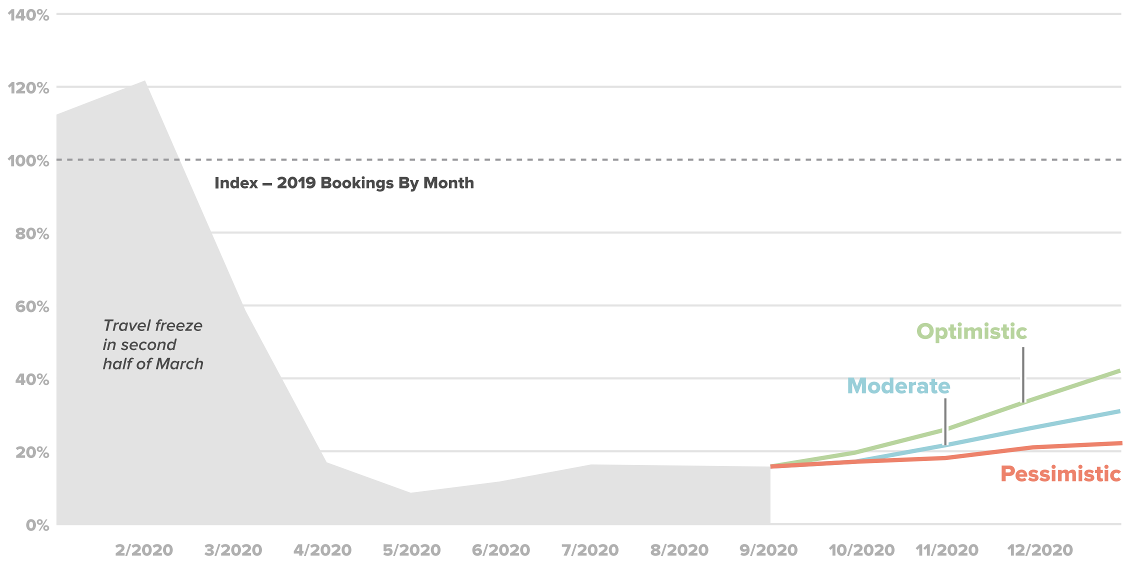
Read on to learn more about where the corporate travel hotel category is today; the drawbacks and benefits of dynamic discounts; and how travel buyers can embrace a more flexible hotel program to ultimately secure better long-term agreements.

WHERE IS THE INDUSTRY TODAY?

Nobody knows how long COVID-19 will last or how long recovery will take for the corporate travel and hotel industries, but one certainty is that it's going to take longer than first thought this past spring.

In its June white paper, TRIPBAM provided a recovery model based on three different perspectives — optimistic, moderate and pessimistic. TRIPBAM has taken this same approach to construct an updated recovery model [Chart 1] that factors in the current state of the hospitality industry, government support programs from country-to-country and expectations that a COVID-19 vaccine will hit the market in late 2020 to early 2021.

CHART 1:
2020 booking volumes by month compared to 2019 (by book date)



Currently, hotel rates remain low. TRIPBAM data shows the average starting rate for a booked hotel (that is, the rate a corporate traveler books before reshopping takes place) is down 32 percent year-over-year to $121 and that rate is expected to stay low until at least the middle of next year.

STR, which tracks hotel rates across all travel segments and chain scales, predicts for the full-year 2020 U.S. demand growth will be down 38.9 percent year over year, ADR will fall 20.9 percent below 2019 levels and occupancy will be 39.7 percent lower year over year. Hotel metrics for U.S. and Europe in August can be found in [Table 1].

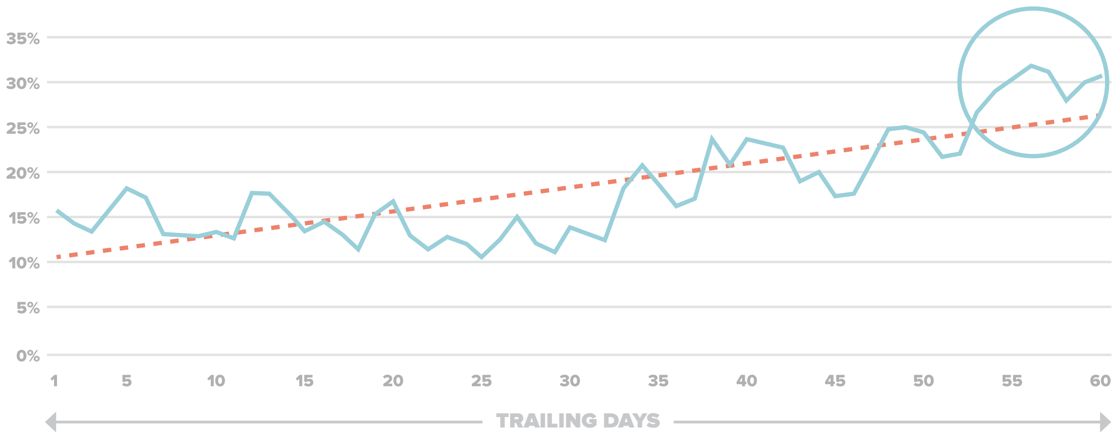
TABLE 1
Source: STR, August 2020

	Occupancy (YOY)	Average Daily Rate (YOY)
United States	-31.7%	-22.8%
Europe	-44.6%	- 13%

But there are some signs of recovery for travel volumes. Hotel closures are down to 3,600 globally from a high of 45,000 in May. In its third-quarter earnings report, Delta Air Lines said that business travel volumes were at about 15 percent of what they were last year, but that the segment was trending upward across all industries and that 90 percent of Delta's primary corporate customers were engaging in some level of business travel.[1]

It's too early at the time of publication to pin down third-quarter volumes among the major hotel companies, but as of October, TRIPBAM saw a 30 percent month-over-month increase in client transactions [CHART 2]. This suggests more corporates are allowing some overnight stays.

CHART 2



TRIPBAM is also seeing length of stay increase year-over-year from 2.41 to 3.43 nights, which supports what some corporate travel buyers have said about allowing longer business trips in which a traveler can hold multiple meetings, rather than fly in and out for one.

1: *Michael B. Baker, "Delta: Most Corp. Customers Have Resumed Some Level of Business Travel." Business Travel News, Oct. 13, 2020. https://www.businesstravelnews.com/Procurement/Delta-Most-Corp-Customers-Have-Resumed-Some-Level-of-Business-Travel*

LOOKING TO 2021

Forecasting volumes in 2021 is a difficult exercise. Taking into account client feedback, the U.S. elections in November, and the expected introduction of a vaccine later this year, TRIPBAM predicts volumes will increase rapidly during the first quarter and then there will be a more gradual increase through the rest of the year. Volumes have the potential to reach 80 percent of 2019 volumes by the end of 2021.

These factors combine to create an interesting environment for discussion about future rates between corporate travel buyers and hoteliers.

It's a buyer's market. This is a certainty that may be clouded by the reduced level of corporate demand today, but it is nevertheless true. With rates down, occupancy down, and too much supply,[2] travel buyers have the power to ask for better terms with hotels, which are desperate for volumes. Yet, with the majority of corporates still halting or significantly holding back on business travel, delivering volume or providing accurate projections of expected volume for when travel resumes becomes difficult.

At the same time, in the months since hotel rates plummeted below static corporate rates, as outlined in TRIPBAM's June white paper, the major hotel chains in both the U.S. and in Europe have taken a step that will further change negotiations for the future. The chains are requesting buyers convert over to dynamic discounts and roll-over static rates negotiated for 2020 into 2021.

These new dynamic discounts are different from chainwide discounts; unlike chainwide, they are calculated on a property-by-property basis, so discount levels may vary at each hotel, and the previous static negotiated rates are now serving as a cap to keep the dynamic rate spiking above what would have previously been paid.

2: *HNN Newswire, "STR, TE slightly downgrade US hotel forecast." Hotel News Now, Aug. 13, 2020. https://www.hotelnewsnow.com/Articles/303958/STR-TE-slightly-downgrade-US-hotel-forecast*

The dynamic discounts from chains currently range from 15 percent to 30 percent off the best available market rate (BAR) — though the largest hotel companies are proposing 5 percent in opening discussions.[3] The level of discount depends upon the overall size of the client globally, size within market, and volume at the specific hotel.

In many ways, the automatic switch over to dynamic puts a lid on the long-running discussion around whether programs should adopt dynamic discounts or hold fast to static negotiated rates. Now, most rates are dynamic whether corporates want them or not. The discussion needs to turn, then, to how to manage these dynamic discounts now and in the future.

DYNAMIC DISCOUNTS: THE GOOD, THE BAD AND THE OPPORTUNITY

Dynamic rates have a historically unfavorable reputation among buyers. For years, corporates have lamented the pressure they've felt from the major hotel chains to adopt dynamic discounts.

The logic for why made sense. If rates are trending up, wouldn't a dynamic discounted rate trend up as well? Tracking dynamic rates, too, has been difficult using traditional methods. How can a buyer know they're getting the correct discount off the best available rate? How can they be sure the discount is being applied to the correct best available rate? After all, revenue management is getting more sophisticated (read: more tricky) and hotels could be playing games with the rate types. Furthermore, how can buyers ensure room availability and prevent massively overpaying during compression nights where the BAR skyrockets past the typical rate in the market?

Yet, the allure of dynamic rates is there when the topic of annual RFPs surfaces.

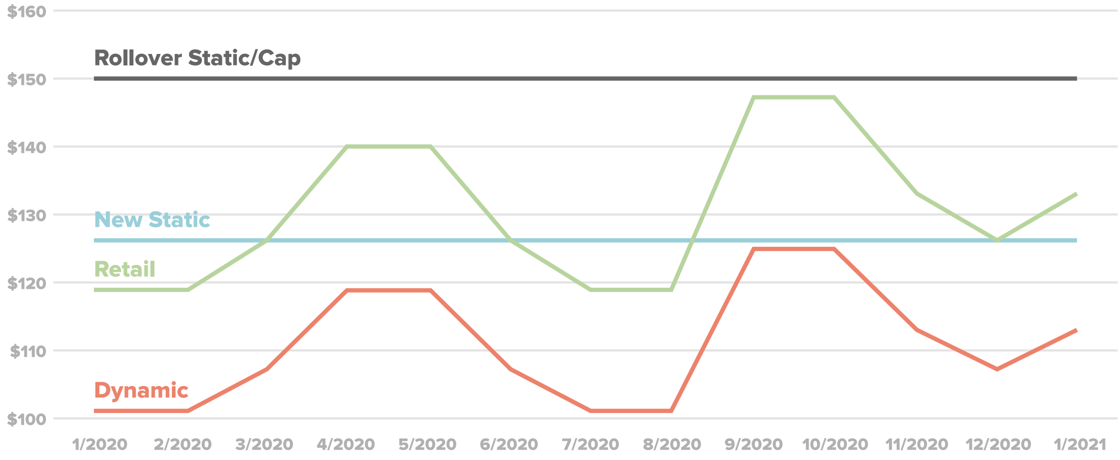
3: *David Jonas, "Lodging 2021: Choose Your Own Adventure." The Company Dime, Sept. 18, 2020. https://www.thecompanydime.com/lodging-2021/*

Static negotiated rates lock the industry into single-year agreements that require both hoteliers and corporates to spend months out of every year conducting a back-and-forth negotiation. The time and cost to implement a static rate program limits the number of hotels in a program, which reduces savings and traveler choice. Additionally, hotels have used seasonality, blackout dates and room category restrictions to further wear away at the benefits of static rates.

Not only do dynamic rates offer the potential for multi-year deals between hotels and buyers, but they also offer greater savings potential if managed correctly.

Chart 3 demonstrates how a dynamic discount will generate more savings in 2021, assuming retail rates stay low but recover slightly in the second half of 2021. The average rate paid using a dynamic discount will be around $119, whereas the average static rate will be closer to $127. The old static rate used as a cap will provide little value.

CHART 3:
Rates in 2021



Beyond the savings potential offered by dynamic in this new environment, the time and resources saved by eliminating the annual RFP process could usher in innovation and better overall hotel program management across corporate travel programs.

RECOMMENDATIONS: HOW TO MAKE THE NEW DYNAMIC WORK

Just because the major hotel companies have flipped static rates over to dynamic rates, doesn't mean travel buyers should avoid negotiations. It's critical at this moment to push back on the hotel chains to secure the best possible dynamic discounts and require additional parameters.

This isn't kicking the hotels while they're down; it's buyers fulfilling a duty to their respective organizations to secure agreements that are in line with current market conditions.

Go back to any hotels offering a 10 percent discount or less and demand better or shift your travelers elsewhere. Why? Hotels were going to pay a 10 percent commission on the BAR. By providing a discount less than 10 percent off BAR, hotels are simply taking off the commission, resulting in no additional cost to the hotel. Secure 15 to 30 percent discounts at what are expected to be the highest volume properties.

Next, it's important to put additional boundaries in place to ensure the new dynamic discounts are working properly.

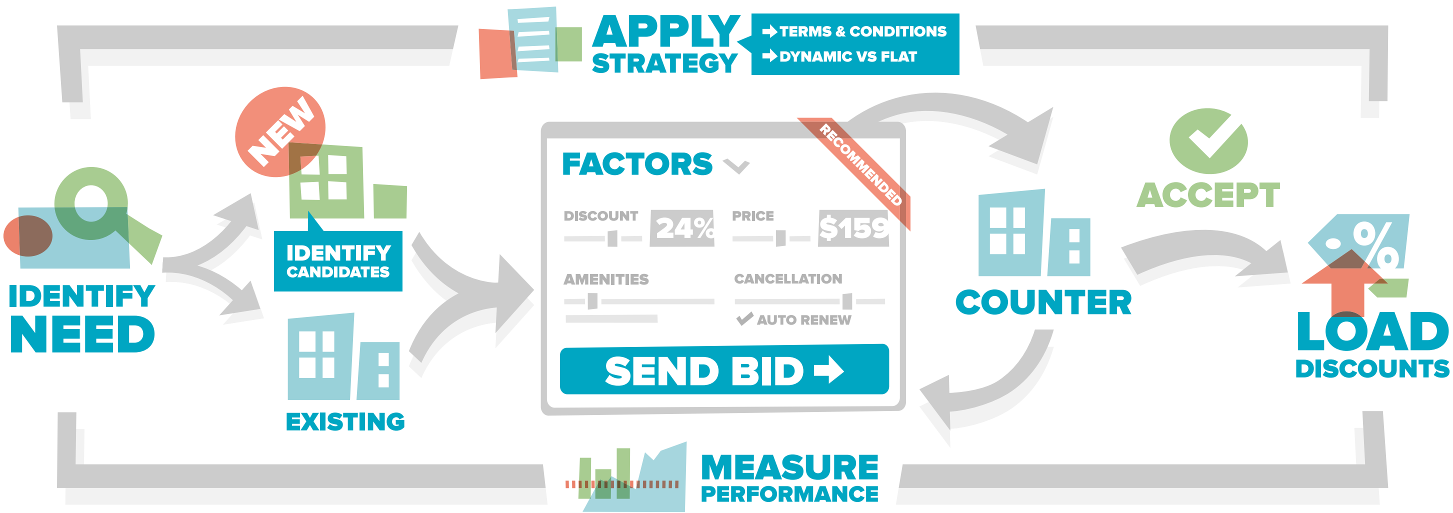
Ensure all rates have 100 percent last room availability (LRA) with no blackout dates or room-category restrictions. This is essential to combat any issues around rate availability. Every traveler should get the discount on every room.

Implement rate caps and target rates through the online booking tool (OBT). Rather than continue the time-consuming and expensive dual-rate load strategy recommended by the hotels in 2020, simply establish rate caps by market and apply them through the OBT. Rate caps prevent travelers from booking a more expensive rate or room category in the market during periods of high demand. Target rates provide a rate that travelers should aim for, further preventing travelers from always booking the most expensive rate available.

Require agreements to be evergreen and roll-over to the next year. Doing so will prevent the need to re-enter formal negotiations and will instead give buyers and hoteliers the flexibility to adjust dynamic agreements as and when needed going forward. Both parties can renegotiate at any time — but if both sides are satisfied, why bother?

Travel buyers can do all this and more by converting their programs to The TRIPBAM Way.

1. **Easily swap out existing static rates for dynamic rates** at properties that haven't already been converted to dynamic using Smart Sourcing. The four-click process makes it easy to update or add agreements. Easily add requirements for LRA, combat blackout dates and establish evergreen deals. Let TRIPBAM calculate a good discount for each hotel based on volume and discounts obtained by peers.



2. **Audit rates daily to track dynamic discounts and grade hotel performance** using TRIPBAM Rate Auditing and Hotel Intelligence. Hotels that don't correctly provide discounts as expected can be swapped out of the program.

3. **Add new properties as needed.** Hotels may close, volumes may return in unforeseen ways, and properties may chronically refuse to provide the agreed-upon-discount or amenities. That's why it's important to be able to easily add new hotels or remove non-performing hotels to a program year-round.

4. **Establish rate caps and rate targets using Hotel Intelligence.** Let TRIPBAM determine the optimal cap and target rate for every market around the globe, not just those where travelers have booked in the past. Once established, export the file import the targets and caps into the OBT.

CONCLUSION

Now is not the time to sit idle. The market has changed and though travel remains hard hit by the COVID-19 crisis, travel buyers need to adjust their programs accordingly to properly prepare for a return to travel.

For years, the industry has been waiting for some kind of driving force to break the inertia of annual hotel RFPs. That force hit this year. Now buyers need to take control and embrace the change that's underway.

Adopting dynamic rate agreements now will save buyers and hoteliers much-needed money and time in the rest of 2020 and for 2021. This shift will help to move the industry away from the annual RFP model, freeing up both sides of the negotiating table to innovate in the long term.

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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