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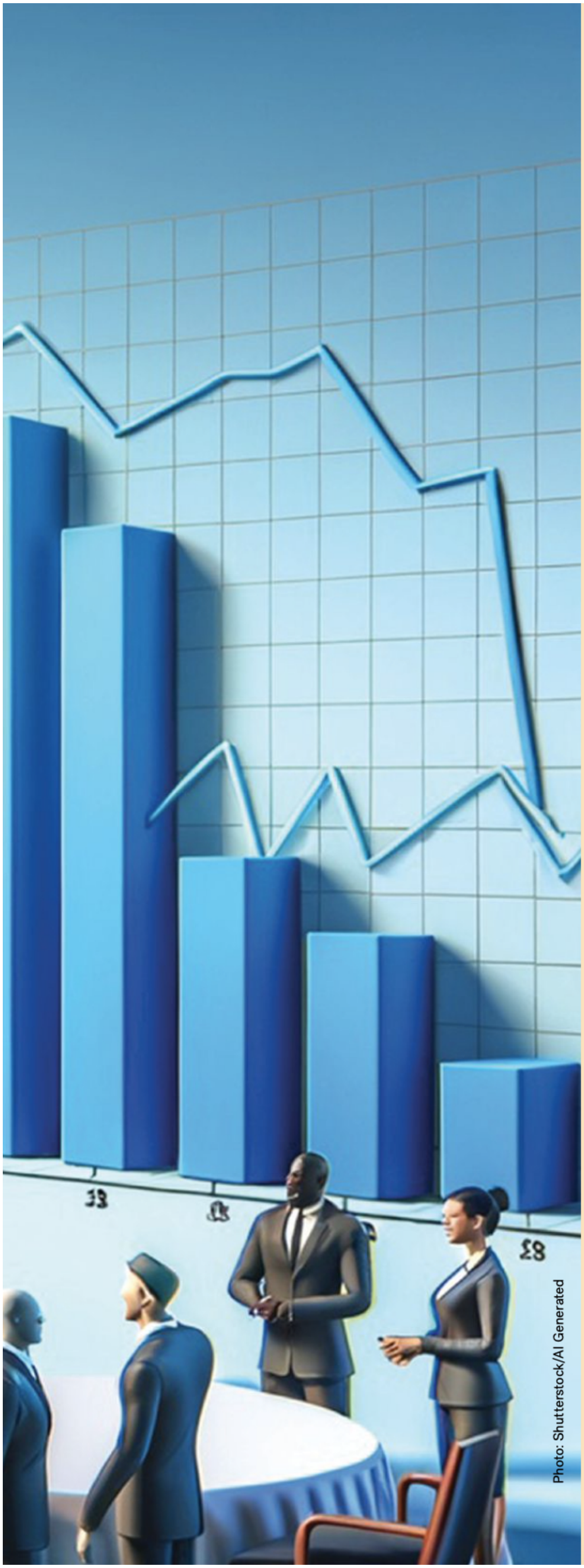

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Hotel Rates: Back to Business

Despite rising costs and uncertain travel volumes, both corporate buyers and hoteliers seem ready to return to the negotiating table

By Harvey Chipkin

The roller coaster of hotel rates over the past few years seems to have glided onto a horizontal track. While business travel volume is not what it was and hotels continue to see rising costs for labor, interest rates and more, the most recent RFP season, "felt like a return to normalcy," as Christiane Cabot Bini, executive director, corporate travel sales for Hilton, puts it.

Last year, average daily rate (ADR) was up 5.5 percent globally against a whopping 23 percent in 2022; according to Pauline Robin, vice president procurement consulting and supplier solutions Americas for HRS. The expectation this year is for a hike of just 3.5 percent.

"This year, business travel has come back enough so that buyers are sufficiently confident to be more persistent," says David Mollov, executive vice president, hotel solutions for Tripbam. One reason, he notes: Leisure demand is not as robust as during the post-pandemic "revenge travel" times.

It certainly seems as if the calming of leisure demand towards the latter half of last year has helped to rein in corporate rates, says Cameron Spence, consulting manager at Amex GBT. It is clear that as an industry, "we are ready to accept that the outlook going forward will have less and less to do with the pre-pandemic dialogue," he says.

Despite increased costs on the hotel side, says Bjorn Hanson, adjunct professor at New York University's Jonathan M. Tisch Center of Hospitality, hoteliers seem satisfied with current ADR levels because they are higher than in 2019 and both buyers and

Rising RevPAR in 2024

Revenue per available room (RevPAR) is forecast to continue its steady growth in 2024, driven by improving group business, inbound international travel and traditional transient business demand, according to CBRE's February 2024 edition of Hotel Horizons.

3.0% Projected increase in RevPAR over 2023

2.3% Projected increase in Average Daily Rate over 2023

sellers appear to be satisfied with increases at about the pace of inflation.

At Cvent, RFP volume has return to pre-pandemic levels, with rate increases of 3.5 to 4 percent, according to Brian Sullivan, vice president of product development. Rate growth, he says, is very much in line with total travel spend.

There are outliers to the general outlook in international markets. Rich Johnson, senior director, Solutions Group at CWT, says that for the 2024 RFP cycle, the travel management company saw moderate increases globally compared with the previous couple of years. However, in certain markets like India and Brazil, the sector did post sharper spikes with rates rising more than 10 percent.

Buyers Aware

Some TMC's even reported rate decreases. Alexis Sisko, managing consultant, BCD's Hotel Solutions, says that while the company entered the last sourcing season expecting price increases around 7 percent, Advito, BDC Travel's consulting arm, reduced its clients' negotiated rates on average by 3 percent year-over-year, with over a third reporting rate reductions greater than 3 percent. Buyers, she says, "took a more active role in communicating their intent to reject, and if rates were unsatisfactory, they rejected the offer."

Similarly, the hotel consulting team for Altour, a TMC, negotiated static rates with a number of hotel operators in the limited service hospitality segment for 2024 that are 10 percent or lower compared with rates in 2023.

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Cheryl Williams, chief revenue officer, Preferred Hotels & Resorts, a network of more than 600 independent properties, says destinations that are corporate-focused were more flexible in rates in comparison with cities where leisure travel still plays a significant role for rate growth, such as Paris, Tokyo, New York and Singapore.

And Dan Surette, chief sales officer for Omni Hotels & Resorts, says the company always works to maintain negotiation flexibility. Meaningful dialogue and a wider view of opportunities, he maintains, "make it easier to address specific client needs and adjust rates."

With all that said, business travel is still not back to what it used to be, and that's crimping buyer's leverage. According to Cory Chambers, chief revenue officer for HVMG, a large hotel management company, negotiated corporate travel has been down 20-25 percent from its previous peak. While business travel has led previous recoveries, he says, that has not been the case this time.

Dynamic vs. Static: Who's Ahead?

The static/dynamic tug-of-war continues – with the stronger tug depending on the wider economic and travel environment at the time. Hotels prefer dynamic rates, Robin says, because they can then increase their prices with higher demand, while buyers want static rates for consistency and predictability. In fact, it sometimes seems like buyers and sellers live in two different worlds, with hotel operators frequently seeing a shift toward dynamic and buyers often observing the opposite.

As an outside observer, Hanson notes many more negotiations this past season included fixed rates, with less emphasis on dynamic pricing and structures based on best available rate (BAR). While on the buy side, negotiators still do not have sufficient information to commit to volume forecasts, Hanson says many on the sell side are accepting estimates as good faith best available information.

For many travel managers, Spence says, there is still an air of uncertainty in fully embracing dynamic rates. However, he adds, when looking at this recent season there certainly was "increased curiosity" from travel managers seeking to deploy dynamic rates in secondary and tertiary destinations. The transition to dynamic rate adoption, says Spence, will be "a slow burner," understandably so as it removes a certain level of comfort.

After a few years of rolling over rates during the pandemic, there was a realization among customers that that process was "an easier lift," Cabot Bini says, as is also the case for dynamic rates. She sees a continuing shift toward dynamic, including among longstanding holdouts who are now testing and learning to see how that approach performs. All told, Cabot Bini says about 75 percent of Hilton's corporate business comes through dynamic pricing.

"So many issues require the focus of travel managers these days – like sustainability and safety and security – they don't have the luxury of time to do four rounds of static rate negotiation over a limited number of dollars," Cabot Bini notes.

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> — Christiane Cabot Bini, Executive Director, Corporate Travel Sales, Hilton

The power of the dynamic rate helps travel managers in finding the best location, in getting consistent rate availability and in requiring a less labor intensive process, according to Brian Macaluso, vice president of global sales for Sonesta. However, when a travel partner requests a static rate for a specific market because of volume and travel pattern preference, he says, Sonesta is always open to those needs and is flexible as a business partner to make each situation a win/win.

The variability of recent years has highlighted the case for dynamic rates, says Surette. "We continue to advocate for dynamic rates as they offer a guaranteed discount regardless of market circumstances."

Best of Both – Maybe

On the question of dual rates – dynamic rates with some kind of cap – or with static rates in certain markets – responses dotted a wide spectrum. While others see the "dual-loaded" option as a positive in certain situations, Robin believes that approach can be "a nightmare" and she has not seen much of it. Conversely, while Tripbam believed at one point that dual pricing was going away, says Mollov, he is seeing more of it. With dual loaded prices, he says, companies get the better rate of the two.

Williams sees dual rates remaining important for many clients. She says Preferred is also seeing some hotels switching to offering dynamic pricing only, despite sacrificing potential business from accounts that will not accept that tactic.

ceiling rates, Sullivan says acceptance of those rates last year was less than 2 percent of all deals, adding, "The movement in the US has been back to fixed rates, with 87 percent of Cvent's customers negotiating fixed rates, very much in line with pre-COVID numbers."

If a company has high volume at one hotel, they might get a double digit dynamic pricing discount there and a smaller discount chainwide. "The total value of a relationship is key," says Chambers.

Whatever the pricing option, last room availability (LRA) is always a simmering issue, Chambers observes. He notes that an account has to be very valuable to gain LRA and in fact, buyers don't ask for it if they know their room volume is inconsistent.

CWT's recommendation as far as LRA, says Johnson, is for buyers to negotiate that benefit whenever volume makes it feasible. Furthermore, he advises that buyers should also leverage the additional volume negotiated by their TMC on behalf of multiple clients. That approach empowers buyers with a strategic advantage amid the evolving dynamics of the hospitality pricing landscape, providing additional choice and increased opportunities to manage costs.

Leveraging Bleisure

Blended travel (combining business and leisure on a trip) continues to be a factor, says Cabot Biini. In 2019, the average length of stay at Hilton was under two days, she says. Now, it has gone up to 2.4 days. In addition, single day trips used to be about 25 percent of all stays and now that number is 15 percent. Gen Z and Millennial travelers, says Cabot Bini, want to expand their trips because they can work from anywhere.

Williams notes that Preferred has seen some city-center hotels, such as those in Phoenix and Amsterdam, offer weekday/weekend rates to drive higher ADR from blended travel patterns. Additionally, she says, several member resorts that

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have historically not participated in any corporate programs are benefitting from bleisure travel bookings.

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From the buyers' side, there is continuing momentum in bleisure and that means longer stays and opportunity in negotiating when those longer stays are added to the mix. The addition of those nights, says Robin, is just one example of what should be a broader convergence – adding meetings and other spend to room nights to create more leverage.

No matter which side buyers are on in static/dynamic, LRA, bleisure or other issues, it will pay to keep a watchful eye on the hotel industry as it navigates challenges like increased operating costs, staffing problems and a return to normal in the leisure segment. "How these are tackled in the year ahead," Spence says, "will be critical for the industry and for ensuring minimal impact for corporates in the next RFP season." ■

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