Dynamic Hotel Rates:
Do They Fit Your Program?

BottomLine group

Travel Industry Consulting

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Why read this white paper?

Have you ever wondered if dynamic hotel pricing is right for your program? If so, you've come to the right place.

At the Global Business Travel Association (GBTA) 2016 global conference, dynamic hotel pricing versus preferred hotel rates versus open booking was a popular topic among panelists. Agreement among panelists, at least publicly, was that each has its place, but none clarified what exactly that place was.

In a quest to demystify the difference between these three pricing strategies, BottomLine Group (BLG) offers guidance in this article by answering some typical questions, and providing recommended actions.

Are preferred hotel rates still needed?

Definitely. Hotel rates are still all about the room nights – whether you are negotiating a preferred rate, a dynamic pricing discount, or a chain deal.

HOTEL RATES ARE STILL ALL ABOUT THE ROOM NIGHTS

When you have the volume, preferred rates will definitely result in best savings over a year. Why? Because a client is protected against daily rate increases by the fixed price, and will also still see any lower rates when available for booking.

What is *enough* volume for a preferred rate?

In major cities, you typically need 1,000 – 2,000 room nights in a hotel to get a rate better than a chain deal would provide. Some hotels in New York City won't do anything special for less than 4,000 room nights. In medium-sized cities, greater than 500 room nights is enough. In small cities, or areas with few business travelers, 200 room nights can bring a useful discount. The exception to these rules is when you have built a good hotel-level relationship, and your room nights are still meaningful to the hotel, or you spend money on other hotel services such as on meetings or restaurant. Below this volume, the request for proposal (RFP) process might not be worth the 10% discount the hotel will give you (which is a similar discount to a chain deal).

Where does dynamic pricing fit in?

Recent press has made it appear like the choice is either a preferred rate program or a dynamic pricing program.

BLG BELIEVES THAT DYNAMIC PRICING SHOULD BE PART OF HYBRID SOLUTION THAT MIXES SOME PREFERRED RATE PROPERTIES WITH SOME DYNAMICALLY PRICED PROPERTIES

Companies that find value in dynamic pricing are those who are using it for lower volume markets, in markets without supply pressures, or may not have the consistent volume to justify preferred hotels.

Companies can negotiate dynamic pricing as a supplement to their hotel program. One perception is that negotiating dynamic pricing agreements will also save time and effort during the hotel season. However, since the dynamic discount off of Best Available Rate (BAR) may vary at each hotel, there is still a detailed negotiation required. Since a dynamic discount doesn't need to expire every year, you could make this agreement extend multiple years, saving effort in year two and beyond.

If dynamic pricing seems to make sense for your program, BLG recommends you carve off a few cities for a dynamic pricing approach in a hybrid model, while still negotiating preferred rates in your largest properties or cities. However, we recommend a rate cap in dynamically priced cities. So if BAR spikes in a city due to limited room availability, you can push travelers to lower priced alternatives.

BLG believes some hotel chains are still looking at dynamic pricing agreements as a focused chain-like deal, with discounts in the traditional 8%-12% range. Several of the large chains are using corporation-specific analyses to assess what overall discount might be a viable alternative to preferred discounting while maintaining or increasing profit. At GBTA 2016, one major hotel chain said they do extensive research to come up with the dynamic discount per cent proposal for each corporate account and/or hotel, looking at booking history, future potential spend, ability to shift volume, etc. – this is promising.

Something to Note

If you do use dynamic pricing, don't assume you saved money; measure it. Some larger Travel Management Companies (TMCs) are capturing BAR at the time of booking to allow a future analysis to audit accuracy and determine savings. However, we believe this to be the exception. If actual BAR is not available for each booking, to calculate savings with dynamic pricing the calculation must be based on city-level average daily rate (ADR) changes over time.

Will dynamic pricing save me money?

It does versus open booking, but harder to prove versus preferred rates. Any incremental saving impact will depend on how big the discount percentage is. For two large global clients, we were able to evaluate the impact of a dynamic pricing approach:

- One corporation had negotiated and implemented a fully dynamic pricing program. BLG compared actual rates booked to the prior year's preferred rates in the same hotels, adjusting for market increases. We found that they paid 6% more when using only dynamic pricing adjusted for YOY market increases. Much of this premium was paid in their largest hotels where they formerly had the deepest discounts.

- The second corporation still had a preferred rate program. So, we analyzed how much this program saved versus open booking, thus indicating how deep a dynamic pricing discount would need to be. For this corporation, their hotel program saved them over 16% on the spend under contract. So, their average dynamic pricing discount percentage across all properties/chains would have to be over 16% to break even and probably 18-19% to incur the risk of change.

So why does dynamic pricing get all this hype?

For several reasons:

1) **Good marketing by hotels:** dynamic pricing allows hotels to manage profitability by adjusting the BAR; if they increase the BAR, all dynamic prices rise as well. This gives the hotels more control over profitability throughout the year.

2) **Hotel sourcing is considered time consuming and costs money:** some corporations feel that losing some savings is worth not having to go through an annual sourcing process. Corporations also think that a hybrid model with a limited number of preferred rates, also saves time.

3) **Useful for companies where hotel spend is spread widely across many hotels:** many companies have smaller volumes in a lot of hotels, with fewer hotels qualifying for a preferred rate. Examples might be consulting firms, companies with a large field service organization or that have a sales force travelling constantly.

If you have a preferred rate, or a dynamic pricing discount, is that the price you will always be booking?

If you negotiate well, this is often the case. But not always. When a traveler books on a business travel online tool or through an agent, they will see the available preferred rate or the rate based on a dynamic pricing discount. But, in most systems, they can also see other rates especially if they are lower (i.e. a promotional rate; TMC's pre-negotiated discounts; a hotel program member-only rate, AAA and other discounted rates). In short, you could get the best of both worlds.

Where do traditional chain deals fit in?

A preferred rate program should be supplemented by chain deals. Every corporation with or without a formal dynamic pricing agreement, especially those with people travelling to low spend volume locations, can benefit from at least one chain deal. These deals are typically 8-12% or more off of the consumer rate or the BAR. This provides a discount versus open booking in hotels where there isn't enough volume to negotiate.

What about direct booking of hotel program member-only rates?

According to Hilton, all hotel chains are now adding member only rates to the Global Distribution System (GDS) for business traveler usage. These rates were intended as a consumer travel option to defend against Online Travel Agencies (OTAs) like Booking.com, not against corporate travel agency bookings. BLG's advice? Only book member-only rates if they show up as being less expensive in the booking tool.

Is open booking a viable option?

Not typically. With open booking, you are paying the best available rate.

IF TRAVELERS ARE INCENTED TO BOOK THE LOWEST AVAILABLE HOTEL RATE IN AN AREA, THIS MAY OFFSET SOME OF THE LOST SAVINGS.

However, BLG believes the risk is still too high – travelers may pick their favorite hotel regardless of rate, you may lose spend data if not booked through a central system and you may lose risk management data. The main upsides of open booking are potential traveler satisfaction for those who love to shop, and potential savings to the Travel Management budget – there is no sourcing project cost and possibly no agency transaction fees.

If I have TripBam or Yapta RoomIQ installed, do I even need preferred rates?

Yes, 100% you do! These two technologies are re-shopping tools. If your booking system was set up correctly, your traveler booked the lowest rate in that hotel that was available at time of booking. These optimization tools watch for better rates after the original booking, but before travel. This includes when:

- Preferred rates where the room was not originally available but becomes available before travel;
- Promotional rates offered at later dates that weren't available at booking time; and,
- If desired, alternative hotels with a lower daily rate.

They can also catch employees who didn't book the lowest available rate. These tools work in conjunction with your preferred program and can find significant savings at both preferred and non-preferred properties.

Defining Your Pricing Options

Preferred Rate: involves negotiating a fixed rate, or up to 5 seasonal fixed rates, in a hotel for a room type. The rate is typically valid for 1 year. If a room type is available, you will be able to book the preferred rate.

Dynamic Pricing Program: a hotel company will agree to a percent discount off of the BAR for their hotels. The hotel rate available for booking can fluctuate frequently since hotels regularly adjust the BAR due to projected and actual demand. The dynamic discounts are specific to a set of hotels, rather than being brand-wide, and it is likely that each hotel may propose a different discount percent based on the historical relationship.

Chain Deal Discounts: these discounts are essentially brand-wide dynamic pricing. Historically, they are paired up with a preferred rate program to provide discounts in hotels and cities where not enough volume exists for this type of rate. The hotel brand sets the discount depending on exclusivity, total volume, global/regional distribution, relationship and willingness to grow business with that brand. For major chains, discounts are typically 10 – 12% off BAR.

Open Booking: this type of booking occurs when a corporation allows travelers to book via any method, including an online booking tool, and then choose the right hotel for themselves. Companies allowing open booking do not typically have a preferred hotel program, or a dynamic pricing agreement. Open booking is often coupled with strong city/regional rate caps.

In summary

The key advantages and challenges of referred rates and dynamic pricing are:

CRITERIA	PREFERRED RATES	DYNAMIC PRICING
Savings	• Savings are achieved throughout the year through a fixed pricing agreement. Savings are reportable. • Can negotiate in amenities by hotel to drive further savings. • Fixed rates allow you to budget for travel.	• Savings are hard to track/document (until agencies consistently capture BAR at time of booking). Depending on the discount, sometimes you will pay more, and sometimes less than a preferred rate. • Recommend implementing rate caps as well – a 20% dynamic discount in a 5-star, $400 hotel may not be the right choice. • Dynamic discounts do not include amenity discounts. • Since rates are variable, it is harder to confirm a budget for travel.
Sourcing / Negotiation Effort	• Time consuming – take three to four months to complete the RFP process each year.	• A dynamic pricing program may take similar time and effort if discounts are negotiated at the hotel level. • The GBTA Hotel RFP template does allow entry of a dynamic rate proposal percentage off BAR. • Dynamic price agreements can be multi-year. • Companies still need to know their data and compare it to prior years.
Coverage	• You know what properties are in the program. Wider coverage if supplemented with a chain deal.	• Some hotel brands within a chain will opt out. Some specific hotels will also opt out.
Data Capture	• Hotel booked data available. Therefore, the rate audit is straightforward.	• Hotel booked data is available. However, a rate audit is difficult – BAR changes frequently, and BAR is typically not captured for future analysis purposes.
Traveler Satisfaction	• Consistent rate week to week. Rates should be among the lowest in the market.	• Frequent rate changes may confuse the traveler – they may spend more time shopping rates. Other hotels may have lower rates.

Our recommendations

- Review transaction-level booked data at your preferred hotels. See if there are hotels where travelers are booking rates lower than preferred – this might be specific to a season. Discuss with your hotel rep and ask for a lower rate.

- If you use a post-booking optimization tool, such as TripBam, check if any preferred hotels are being consistently flagged with lower rates. Then, have a discussion with the hotel.

- If you are thinking about making dynamic pricing part of your program, a hybrid model with some preferred rates is recommended. To get hotels interested in good discount rates, you will need to designate enough volume to be dynamically priced. Take a hard look at your preferred program to see if you are sending RFPs to hotels with limited volume, or if there are hotels relying on a lot of discounted / promotional pricing as a standard practice. Also, consider rate caps in dynamically priced cities.

- Test out dynamic pricing in a few secondary or tertiary markets.

- Optimize your program by knowing and understanding where the high and low volume is, and which markets are typically high demand. Leverage the discount offerings (preferred rates, dynamic pricing, chain discounts) to achieve the right mix of savings, coverage and traveler satisfaction.

So there you have it. Are dynamic hotel rates a fit for your program? Now you now have the information to decide.

About BottomLine Group

BottomLine Group (BLG) is a leading management consultancy providing tailored strategies and solutions to clients across North America. We are trusted for having expertise in the Travel, Financial, Professional Services industries, as well as in the Public and Private sectors. Our team provides a suite of services that achieve bottom-line results.

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