

The Wire...from AirPlus

September 2009: Hotel negotiations in focus

AIRPLUS. WHAT TRAVEL PAYMENT IS ALL ABOUT.



Travel buyers are looking to capitalize on weak hotel markets to garner additional savings in 2010, according to a September survey of 142 travel management professionals for this issue of *The Wire...from Airplus*.

That may not be so difficult to do, with the overall hotel market projected to decline further next year, and hotel suppliers looking to lock in corporate travel and meetings contracts that will help keep their occupancy levels up.

Not surprisingly, more than 72 percent of respondents to the survey revealed that 2010 corporate travel budgets for hotels would either stay the same (40.1 percent) or decrease (32.4 percent). The good news for travel managers under the intense pressure to buy more travel with less money is that hotel volume based on total nights would remain fairly steady as well: 43 percent of respondents indicated that hotel volume would stay the same and 28 percent said that volume would decrease. Although, some travel managers will feel the pressure with 28 percent of respondents who said their hotel budgets will stay the same also expect volume to increase; and only 4 percent of respondents will grapple with falling budgets and rising volume. For a small percentage, volume will fall, while budgets will increase (3.2 percent of respondents).

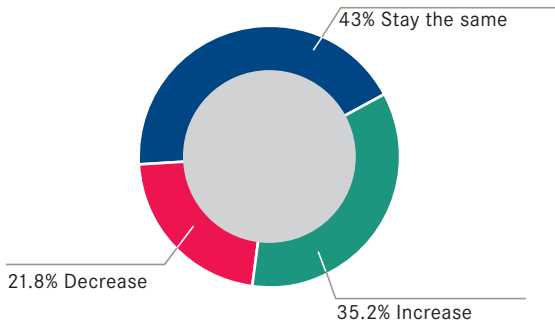
Despite this, the majority of respondents in all budget categories said they will focus on getting additional room rate discounts in their contract negotiations. The next most popular negotiation method will be obtaining for more value-add items within the room rate. Dynamic pricing, which came in at the bottom of the list, but still will be negotiated by nearly 20 percent of survey respondents, is an interesting approach that may work well in a hotel market that is not expected to regain its footing until well into 2010.

Analysts at such firms as PricewaterhouseCoopers and Smith Travel Research have issued 2010 forecasts that predict a slight decline in average daily rates for the U.S. hotel industry overall next year. Dynamic pricing tactics, which base corporate rates on a scale of daily market rates, could work well in this scenario, but specific markets should be carefully vetted to capitalize on this type of savings opportunity. At the other end of the spectrum, survey respondents independently noted that they plan to take advantage of the current market to negotiate 18- to 24-month contracts.

In this weak economic environment, your overarching hotel contract negotiation strategy will be to... (choose one)

Go with suppliers who deliver the lowest possible rates even if that means changing suppliers	33.6%
Include an option to re-negotiate if market rates decline further	37.9%
Maintain valuable preferred supplier relationships even if it costs a little more	20.7%
Other	7.9%

For 2010, you expect your company's hotel volume (total room nights) to...

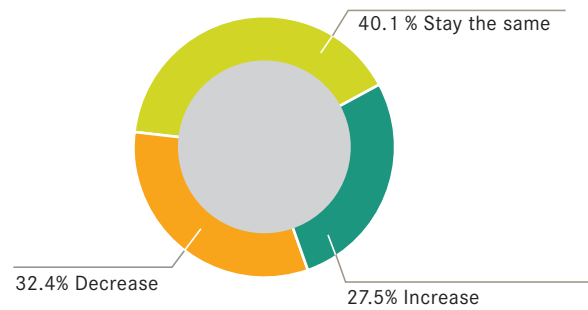


Many travel buyers—more than 37 percent of survey respondents—are looking to strike a middle ground between the two extremes by including the option to renegotiate their contracts should market rates decline significantly after initial agreements are made. Many corporations felt that they subsidized their hotel partners in 2008 as market rates deteriorated well below corporate discounted rates in many cities—especially in the second half of the year. In the 2009 hotel contract season, many companies delayed making commitments until well into January, not only as a reaction to the faltering economy in general but also because they wanted more visibility into how hotel rates would react to the downturn.

They were smart to do so, as overall hotel industry performance hit its lowest point (in year-over-year comparisons) in the first quarter of 2009, according to PKF Hospitality. With analysts predicting continuing declines for 2010, mid-year renegotiation may again prove amenable to suppliers looking for volume guarantees that corporate contracts can provide.

When push comes to shove, however, supplier relationships will take a back seat to economic pressures in 2010 for more than 33 percent of survey respondents, who indicate that they will go with suppliers that can offer the lowest rates. Only slightly more than 20 percent of respondents will have the luxury of maintaining their preferred suppliers, even if rates are slightly higher than less preferred alternatives.

... and the company's hotel budget to...



When negotiating 2010 hotel contracts, what are your most important goals? (check all that apply)

Maintain 2009 contract terms	31.2%
Get additional room rate discounts	70.2%
Get additional added-value items	56.7%
Last available room	34.8%
Dynamic pricing	16.3%
Leverage pricing through a travel management company	19.1%
Other	5.7%

Additional Resources

Buyers Eye 2010 Hotel Challenges, Opportunities

<http://www.management.travel/news.php?cid=buyers-2010-hotel-opportunities.Sep-09.10>

Hotels Renegotiating Rates to Preserve Corporate Business

<http://www.thetransnational.travel/news.php?cid=hotel-rate-renegotiations.Jun-08.05>

U.S. Lodging Turning Point Arrives But Growth Remains on Distant Horizon

http://www.hotel-online.com/News/PR2009_2nd/Jun09_LodgingTurningPoint.html

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