

The Wire...from AirPlus

July 2011: Hotel Rate Negotiations for 2012

AIRPLUS. WHAT TRAVEL PAYMENT IS ALL ABOUT.



Nearly half of all travel managers expect 2012 to bring an increase in negotiated hotel rates along with rising hotel volume and corporate hotel budgets.

Many corporate travel managers are optimistic about business travel in 2012, with nearly half of the corporate travel managers responding to an AirPlus survey expecting both their company's total room nights to increase in 2012 (47 percent) and their company's overall hotel budget to increase (48 percent). Another 44 percent expect their total room nights to stay the same, while only 9 percent are anticipating a decrease. The numbers are slightly less cheery for hotel budgets, with 33 percent saying they expect it to stay the same and 19 percent forecasting a decrease.

Along with more travelers and increasing budgets comes the expectation of increases in negotiated hotel rates. Almost half of those surveyed (49 percent) expect their negotiated hotel rates to increase by 1 to 5 percent, while another 8 percent expect increases of 5 to 10 percent. Those who expect their rates to remain the same come in at 22 percent, while 16 percent anticipate a decrease of 1 to 5 percent and 6 percent think they'll see a decrease of more than 5 percent. None of those surveyed expect an increase of 10 or more percent.

This year, your overarching hotel contract negotiation strategy will be to... (choose one)

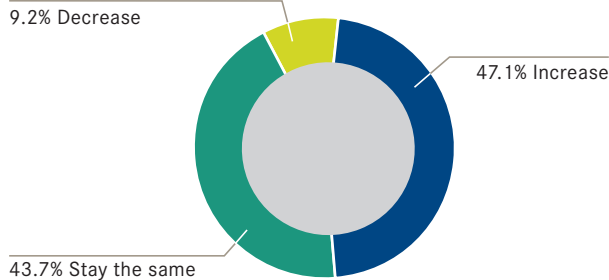
Maintain valuable preferred supplier relationships even if it costs a little more	36.4%
Go with suppliers who deliver the lowest possible rates even if that means changing suppliers	26.1%
Include an option to renegotiate if market rates decline	19.3%
Explore dynamic pricing initiatives	6.8%
Other	11.4%

The expectations of the corporate travel managers are generally in line with those coming from hotel companies: Chief executives of several hotel companies have publicly stated they plan to push for corporate transient rate increases of high single digits during 2012 contract negotiations, similar to where they say the 2011 negotiated rate changes landed.

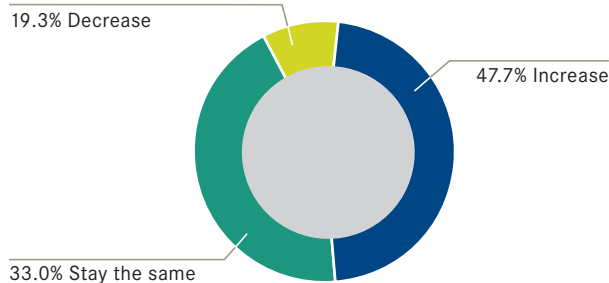
Hotels have good reason for optimism on the rate front. As demand continues to increase with more business travelers back on the road and supply of hotels rooms constrained, especially in the United States, rates have increased through the year. Occupancy has also been boosted by a return of corporate group business.

In the U.S., for example, average daily hotel rate increased in May by 4 percent year over year according to STR, which tracks supply and demand data for the hotel industry. STR president Amanda Hite said the industry is getting nearer to the peak level rates of 2008 and that rates should continue rising in 2011.

For 2012, you expect your company's hotel volume (total room nights) to...



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



When it comes to overarching strategy for contract negotiations, there's also a mixed bag, although the strengthening economy is bringing a return to supplier loyalty. For example, 36 percent say their overarching strategy will be to maintain preferred supplier relationships even if it ends up costing them a little more. Not so, however, for another 26 percent, who are prepared to go with suppliers who deliver the lowest possible rates, even if that means changing suppliers.

Only two years ago when corporate travel professionals answered a similar AirPlus survey about their 2010 negotiations, those numbers were almost the inverse—at that time, 34 percent planned to go for the lowest rates, even if it meant changing suppliers, while only 21 percent were willing to maintain supplier relationships if it cost more.

Nearly 20 percent of this year's respondents plan to try to include an option to renegotiate if market rates decline. If economic recovery continues apace, however, it's unlikely that those market rates will decline. Still, economic uncertainty persists, with some experts talking about the risk of a double-dip recession amid the news of a weak jobs report in June and the uncertainty of the U.S. national debt ceiling. In either event, demand could weaken, staying rate increases. Other events of this summer could also have an effect

For 2012, what kind of movement do you expect on your negotiated rates?

Increase 1-5%	48.9%
Stay the same	21.6%
Decrease 1-5%	15.9%
Increase 5-10%	8.0%
Decrease more than 5%	5.7%
Increase 10% or more	0%

on upcoming 2012 negotiations, particularly the price of oil. In a new report, PKF Hospitality Research said that hotels would see minimal disruption if oil reaches \$125 barrel, but prices above \$150 would severely curtail the industry's recovery. (At print, the price per barrel is over \$94.)

A much smaller percentage of corporate travel managers—7 percent—this year plan to focus on dynamic pricing initiatives, a discount off the hotel's best available rate rather than fixed negotiated rates. Although the concept continues to gain traction among hotel suppliers, corporate travel executives seem leery of such a model in this period of increasing rates. By contrast, for example, more than double that number—16 percent—told AirPlus in the 2009 survey that dynamic pricing was a focus for 2010 hotel contract negotiations.

Additional Resources:

Hotel CEOs: Corporate Transient Rates to Increase Again in 2012

<http://www.businesstravelnews.com/Business-Travel/Hotel-News/Articles/Hotel-CEOs-Corporate-Transient-Rates-To-Increase-Again-In-2012/>

Hotels Report Strong Corporate Demand, Rising Rates

<http://www.management.travel/news.php?cid=hotels-strong-demand-rising-corporate-hotel-rates.May-11.05>

Survey Methodology: For this issue of *The Wire*, AirPlus International surveyed 101 corporate travel buyers in North America and Europe from June 3 to July 8, 2011.

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