

HOTEL NEGOTIATED SAVINGS MEASUREMENT: A RECIPE FOR SUCCESSFUL HOTEL CATEGORY SPEND MANAGEMENT

Companies' biggest barriers to savings & value is how they do the math

NOT ALL CALORIES ARE EQUAL

If you've ever been on a diet, you probably know not all calories are equal. You could eat 1700 calories of potato chips and chocolate bars, or instead choose the same number of calories in lean proteins, leafy greens and avocados. While junk food provides immediate gratification, the healthy options provide long-term health value and benefit. The same choices are faced by procurement teams! In many travel programs today, buyers are seeking immediate gratification by securing negotiated discounts without thinking about if, when and how those deals will be consumed by their travelers.

This disconnect can be seen clearly in hindsight—hotels reduce the number of rooms available at a company's negotiated rate, leading travelers to book at higher rates. Or, travelers will do what they think is best for themselves and the company and find lower and better rates in another channel.



Many Advito clients have **40% to 70%** of their preferred hotels in markets with less than 100 room nights per year.

COMPANIES REWARD UNHEALTHY CHOICES

For many years, the health of the travel program has been measured in savings. Companies have pressured their suppliers and TMCs to demonstrate value in the form of bottom-line performance rather than how the program contributes to the top-line growth and broader corporate strategies. In an effort to simplify hotel program management, companies define success by the number of rates negotiated. Often this results in travel buyers spreading the program too thin, selecting properties in markets where they have no leverage. And, more often than not, this strategy results in a massive difference between projected savings based on negotiated rates and actual spend.

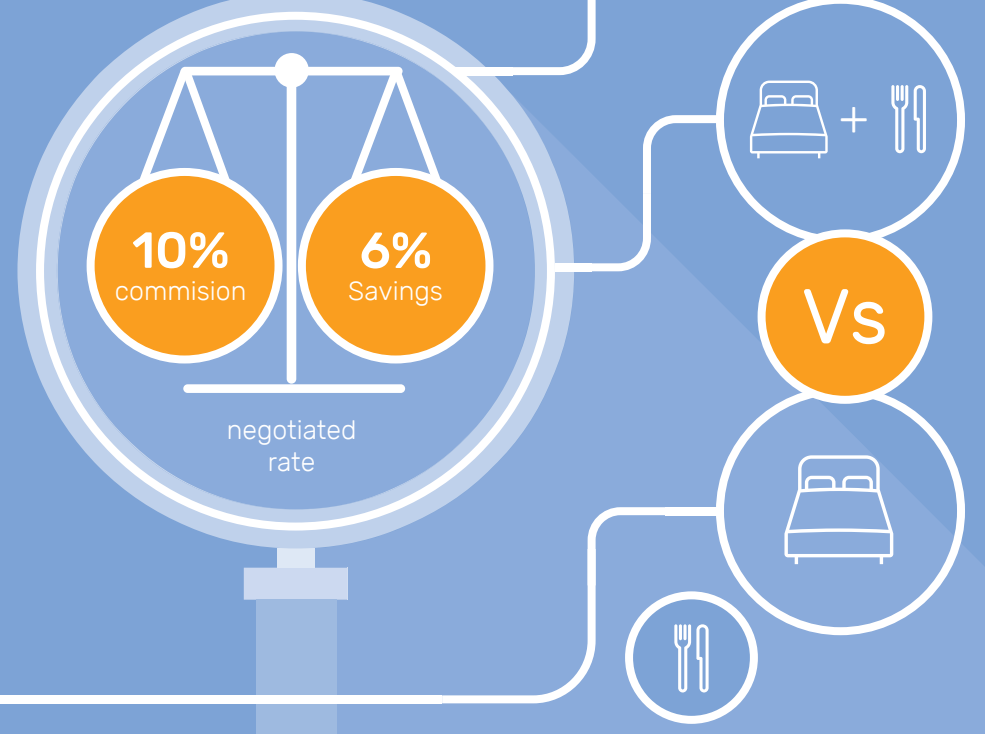


Travelers assume that if they're booking a preferred hotel, it's the best deal. But often times, it's not.

BALANCE THE COST-VALUE EQUATION

There are some new negotiation tactics to consider and more importantly, analytics to keep your suppliers accountable to their commitments. Many companies overlook commission structures when they sign chainwide agreements because they can't count them toward the metric they are using to show savings with negotiated rates. It's a similar frustration with ancillary spend, if a negotiated hotel rate includes breakfast, it doesn't count as savings. And yet, when you add up what the room and breakfast would cost the company when purchased separately, the negotiated package will likely be superior.

The real issue lies in how companies quantify the actual value of their program. The great news is that there are new tools and resources to better articulate the value of individual rates throughout the booking process, without creating a significant change management issue for your travelers.



NEW METRICS OF SUCCESS

There is a lot of incentive to take a more aggressive approach to measuring hotel program performance. Your suppliers certainly are taking a more dynamic approach and using real-time data to maximize revenue.

How can your program analytics help to shape a hotel strategy that drives long-term value for all your stakeholders versus success that can only be demonstrated in hypotheticals?

AGILITY IN PROGRAM STRATEGY IS KEY

BUT THE REAL IMPACT CAN BE SEEN IN THE WAY YOU MANAGE IT AND MEASURE PERFORMANCE.

- ✓ MEASURE YOUR SAVINGS RELATIVE TO THE AVERAGE BOOKED RATE AT A MARKET LEVEL. THE BYGONE METRIC OF MEASURING SUCCESS AGAINST AN AVERAGE PROPERTY RATE OR LAST YEAR'S NEGOTIATED RATE HAS VERY LITTLE GROUNDING IN REALITY, GIVEN THE DISPARITY IN HOW AND WHERE ROOMS ARE SOLD AT ANY GIVEN MOMENT IN TIME.
- ✓ ACTIVELY MONITOR RATE AVAILABILITY AND COMMUNICATE PERFORMANCE WITH YOUR SUPPLIERS REGULARLY. THIS WILL BE A GREAT LEVER FOR RE-NEGOTIATION IF THEY ARE NOT HOLDING UP THEIR END OF THE BARGAIN.
- ✓ WATCH THE MARKET BEFORE AND AFTER A HOTEL BOOKING IS MADE SO YOU CAN GUARANTEE THE BEST AVAILABLE PRICE AND OPTIONS FOR YOUR TRAVELERS.
- ✓ ENLIST THE SUPPORT OF YOUR TRAVELERS BY COMMUNICATING PROGRAM GOALS AND BENEFITS, EDUCATING THEM ON CHANGES AND EVEN PROVIDING THEM WITH THEIR OWN SCORECARD ON HOW THEIR BOOKING BEHAVIOR IS IMPACTING SAVINGS GOALS.

- ✓ UNDERSTAND THE NEEDS OF YOUR TRAVELERS AND DEFINE THE RIGHT MIX OF HOTELS AND EXTENDED-STAY PROPERTIES IN YOUR TOP MARKETS, OR THOSE MARKETS WHERE YOU ANTICIPATE GROWTH.
- ✓ NEGOTIATE ONLY IN MARKETS WHERE YOU HAVE LEVERAGE. ENSURE YOU HAVE ENOUGH VOLUME TO JUSTIFY THE NUMBER OF PREFERRED HOTELS.
- ✓ GO FOR CURRENT MARKET PRICES WHERE THERE IS LESS VOLUME. USE MARKET-LEVEL RATE CAPS TO MANAGE SPEND.
- ✓ ADAPT YOUR PROGRAM THROUGHOUT THE YEAR, CHALLENGE SUPPLIERS THAT AREN'T LIVING UP TO THEIR COMMITMENTS, ADD AND REMOVE HOTELS AS NECESSARY, AND USE THE CHANGES AS AN OPPORTUNITY TO SOLICIT TRAVELER FEEDBACK.
- ✓ DIRECT TRAVELERS TOWARDS BOOKING THE BEST VALUE RATE INSTEAD OF ENCOURAGING TRAVELERS TO SIMPLY BOOK PREFERRED. DRIVING SPEND TO A PROPERTY WHEN IT'S NOT THE BEST VALUE HURTS YOUR COMPANY ON THE FRONT END AND NEGATIVELY AFFECTS FUTURE PRICING.

ORGANIZATIONAL ALIGNMENT

Back to the junk food analogy. We know that there are no long-term benefits by eating empty calories, they rarely even keep us full for long. Conversely, eating nutrient-dense foods not only keep us fuller for longer, but they help our internal systems run better and improve long-term outcomes like maintaining a healthy weight or reducing our chances of developing diabetes or heart disease.

A value-driven travel program requires all stakeholders and systems to communicate effectively and clearly define the long-term outcomes they wish to achieve. This means, in some cases, unprecedented collaboration between procurement and travel managers to rethink accountability for both teams. It's now possible to demonstrate improvements in booking behaviors and ultimately, a quantifiable measure of satisfaction with the program itself.

When you establish your goals, you can choose which of the incremental adjustments will make the impact you're looking for. Just like when you decide to improve your health – you don't decide on a meal plan once a year and you don't rely on food to be the only variable in your success. Sustainable change happens in stages and is reinforced when you share performance data with everyone that's contributing to the success.

Are you ready to make a few changes and start incorporating more value-driven decisions to improve the health of your travel program's bottom line? Now is a great time to get started.

