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Relief From Proposals

The rules of the RFP road are changing, with buyers and hoteliers alike thinking about alternatives

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It’s amazing how three little letters can strike terror in the hearts of otherwise calm, rational people. Think KGB, or IRS, or – in the case of travel managers – RFP. As this year’s RFP season approaches, travel managers find themselves in their best negotiating position in years. Still many are hoping for and working toward changes to make the RFP process more sensible for the long term.

On the rate front, the US hotel market suffered a slight decline in occupancy during the first quarter of 2016 while there was a 1.5 percent increase in supply, according to Smith Travel Research. This is the first year-over-year decline in occupancy since the fourth quarter of 2009. CBRE Hotels’ Americas Research is projecting an 0.6 percent decline in occupancy for 2016. While rates will continue to rise, it will be at a slower pace than in recent years because of weaker outlooks in certain major markets like New York.

As for the long-range outlook, the Global Business Travel Association considers the current RFP process “broken” to the point that a scheduled panel at the recent GBTA Conference in Denver was called “Why Is Corporate Hotel Procurement So Screwed Up?” Kate Vasiloff, research manager for GBTA, is in the midst of a project to determine how hotel and travel managers can develop a better working relationship.
“At the end of the day,” says Vasiloff, “everyone wants the same things. But where is the wiggle room? What can I give you and you me? What innovations haven’t we tapped into? How can we make this system work better?”

The End of the Cycle?

First, the market. After several boom years, rates have stabilized in most markets and slid in others, with just a few – like San Francisco – continuing to see strength. Many agree that the landscape is shifting, if ever so gradually, from a seller’s to a buyer’s market.

“Certainly by most people’s calendar, we are on the backside of this economic cycle,” notes Brendan McNamara, executive vice president of marketing, communications and product development for the Dream Hotel Group. “Predictably, the dynamics of negotiations are shifting towards a buyer’s market scenario.”

Craig Partin, chief sales officer for Furnished Quarters, a corporate housing operator, says, “In our markets (northeast), it’s more a matter of overbuilding than softening. Obviously, everybody is experiencing a pause in the economy and people are nervous about the presidential election. But we are not seeing some sort of drastic change,” Partin says.

“The answer depends on the market,” says Bill Sarcona, assistant general manager for Kintetsu. “Currently, New York City is being flooded with hotel rooms, driving rates to very attractive levels. Yet it still takes a savvy negotiator to exploit this advantage for clients.” Meanwhile markets like San Francisco and Boston, where inventory is very tight, are seeing higher ADR’s and slightly less flexibility, according to Sarcona.

“We believe there will be one more year of tough negotiations,” says Chris Conlin, president of Conlin Travel. “Hotels are not ready to give up their rate increases as they are spending a lot on renovations and building. Hotels do tend to be in more of a negotiating mode in the latter part of the year as opposed to when the RFP season begins.”

In some markets, negotiated rates are being consistently undercut by a hyper-competitive rate environment, explains Amanda Colin, senior director of marketing at Ovation Travel. “I recently attended a business travel round table with travel managers. The overall consensus was that, in many cases, rates that were negotiated for 2016 hotel programs are obsolete, because the hotels’ best available rates (BAR) were better than the negotiated contracts. All of us know that, occasionally, BAR and promotional rates are out there, but the general consensus among the group was that in certain cities (like New York) lower rates have been rampant this year,” Colin says.

The RFP Process Goes Year-Round
Because of volatile situations such as the one Colin points out, negotiating now seems to be an ongoing, year-round process. “While rates may be set in September, they remain negotiable and flexible through the year.” Sarcona says. “Nothing is set in stone anymore. It’s important that hotels reach their room goals. In fact, I only negotiate with hotels where I honestly feel that I can assure production.”

Sarcona says rate flexibility, like many other issues, is market dependent. For instance, he had several New York hotels contact him early this year offering reduced rates, “something I have not seen since the Lehman Brothers crisis.” And, he notes, these are both major chains and boutique hotels.
“The RFP system is archaic but has been enhanced over the years – though not as rapidly as systems like the GDS’s and OTA’s,” says Michael Tall, COO of Charlestowne Hotels, a management company with a diverse portfolio. “Those have evolved more quickly than the corporate RFP process. We would love to revisit contracts every quarter to see what is and isn’t working.”

Tall thinks a rigid approach to pricing works against corporations. “Flexibility is to the advantage of the travel manager. An example: if you have the flexibility to get 15 percent off the BAR all the time you are guaranteed a better deal than just specifying rates for two seasons. But many managers are stuck with the latter because they don’t have the systems or the time.”

“If the contracted rate is overshadowed consistently by lower BAR, we will go back to hotels to renegotiate rates more in line with the marketplace,” says Colin. “Typically, we will add new hotels to the program mid-year if a new need arises in a particular city where we didn’t have an offering. We want to do what we can to produce as many room nights as possible at hotels in the program, so we have even more leverage to negotiate for next year.”

Hotels are now reacting more quickly to market conditions, Sarcona advises. “In markets that are strong, hotels won’t lower rates but I will push for value-add items like breakfast. I am always looking for an exclusive extra so that I can give clients something they can’t find on the internet. The fact that we book 100,000 rooms domestically a year gives us the leverage we need to do this.”

Conlin agrees, adding, “We have multiple clients that look at lodging on an as-needed basis. We review our hotel program every six months and if there is a need to negotiate during the year based on client need then we will advise them of that and negotiate a rate for the remainder of the year. We will also negotiate with hotels for specific projects or long-term stays for a small group of travelers."

Greg Ross, manager of client consulting service for Christopherson Business Travel, says, “We are seeing more and more hotel RFP’s being done throughout the year; however, they usually run until the end of the year. Our locum tenens clients will negotiate all year as new hospitals join their programs. Retail chains also conduct RFP’s year round as new stores are opened.”

Hoteliers agree that the process has evolved toward ongoing monitoring and adjustments. Joe Gaeta, director of sales and marketing for the newly reopened Hotel InterContinental New York Barclay, says, “I found with The Barclay that when I was coming into most programs outside of the traditional timeline they were very accepting to include us, which makes me think companies are open to RFP’ing a hotel when it makes sense. If an office will open mid-year or a project is taking place they will absolutely add hotels and not wait for the official RFP season to start.”

And there are managers who simply extend the status quo for another year. “If market changes are not significant and volume at a given property has remained consistent, this can be an effective approach,” says Eric Jongeling, director of the CWT Hotel Solutions Group. “However, in most situations our clients face, there are many changes that occur from one year to the next which influence the conversation. If volume at that property has increased or that market has softened, we would expect better terms. This is especially important to offset increases which can be expected in other cities.”

Adding to the mix, dynamic pricing, where the rate is based on a changing BAR or other standard, is becoming more common. Dallas Stewart, account manager for Christopherson Business Travel, the market has changed “because hotels are now doing a percentage discount rather than fixed rates.”

Locking In For Longer

Longer term contracts is an approach that meets strong resistance from hoteliers but which GBTA favors. “We heard a lot of frustration from both sides and one way to alleviate the never ending cycle is moving to a two or three-year contract,” says Vasiloff. “But hoteliers say their systems are not set up for that. My takeaway is that a hotelier who invests in that direction – if they can figure out a way to do a longer term – would be welcomed by travel managers.”

Vasiloff maintains that eliminating the annual RFP process would free up time for other valuable tasks. “Currently, you can grow a fantastic partnership and then the RFP season opens and you have to start all over again.”

But McNamara says, “A one size fits all ‘ask’ for a three-year locked in rate is simply not reasonable in all markets.” And Anna Gaffney, who is director of sales for Q&A Residential Hotel maintains, “Every travel manager wants to lock in rates this year because it’s soft. From our perspective, however, we don’t know if we want to commit.”

However, there are exceptions. Chris Tetterton, director of travel services-strategy, for Creative Lodging Solutions, a travel management company, says, “We are seeing longer contracts. Obviously we do lots of research so each negotiated rate is a good deal for the long-term. However, there’s always a slight risk associated with longer terms.”

Gaeta agrees, but with reservations. “Yes, this is more common now and for New York City I think it’s happening for two years but not as long as three years. One banking company for example never had a two-year in New York but they did in every other market. Now since one New York hotel offered a two-year the banking company forced that to be standard for their entire program.”

Data & Technology Ease the Pain

Currently there is a proliferation of technology products aimed at making the RFP process more transparent or otherwise supporting travel managers in dealing with the complex landscape. One such is tripBAM, which recently introduced tripBAM Analytics. The tool identifies which negotiated rates are performing well or poorly relative to the market; tallies losses incurred by property due to Last Room Availability (LRA) and late rate-loading issues; details which hotel rates generate the most savings for the company; and identifies travelers who are saving the most or losing the most.

“Travel managers now have another tool to make the process better and bring sanity to it,” says Steve Reynolds, CEO of tripBAM. “Just because you contracted a negotiated rate doesn’t mean you are getting it – or that the rate is a good one if it’s higher than the market rate.”

Christopherson Business Travel has developed its own rate management tool called Hotel Attachment, which takes aim at low hotel attachment rates that lead to weakened vendor negotiations and compromised duty of care. With this tool, explains CEO Mike Cameron, travel managers have a knowledge of where travelers are staying which helps ensure compliance and fulfill duty of care. In addition, it helps satisfy the company’s commitments with contracted hotel vendors.

More solutions come from HRS, a global booking portal that works with thousands of companies. It is able to aggregate data so that it can establish rate benchmarks, according to Suzanne Neufang, vice president of corporate Solutions-Americas. “HRS shows benchmarks based on the company’s volume and then compares that to rates at other corporate programs with similar volume – not merely comparing/contrasting the incoming bids,” Neufang says.

“While the RFP process may be similar in many ways, tools for travel buyers to stay engaged across the year – to ensure proper rates are loaded and travelers are charged the right amount – continue to evolve. It’s vital for travel buyers to stay engaged all year long.”

And several travel managers see Sabre RFP, which offers an online marketplace for hotel room buyers and sellers, as a solution. Says Adelina Littler, account manager for Christopherson Business Travel, “Sabre RFP helps in communicating to travelers since you can share the negotiated hotels in a directory on your intranet.”

Relationships Still Matter

Solid relationships frequently override objections to longer term contracts or other changes in the status quo. “As with most negotiations, loyalty and relationships are king,” says McNamara. “We are more likely to be flexible in our response to longer term agreements and flattened pricing if the relationship has been a fruitful one and can grow as a result of concessions being given or, in other words, quid pro quo.”

While the industry has become transactional; Tetterton says, “we find great success in the relationships we’ve built and maintained over the years with both clients and hotels.”

Relationships are important because negotiations are not only market-dependent but client-dependent. “Travel managers abide by the needs of their organization,” notes Lori Benton, account manager for Christopherson Business Travel. “For instance, an LRA rate may be critical to a company with more stringent budgeting processes, while another is willing to accept a lower rate and ‘take their chances’ in an effort to exploit current or expected conditions.”

And Gary Isenberg, president of LW Hospitality Advisors, says, “When you have companies like GE or IBM that are dominant in a market they want to stick with fixed pricing and LRA because it’s more advantageous to them.”

In the end, the familiar RFP process in not going away anytime soon; hotels especially have too much at stake in maintaining it. “The process is absolutely essential simply because you have massive companies and too many properties,” says Andy Anderson, an industry veteran who is now COO of Hospitality Business Resources, a newly formed consultancy.

But more flexible approaches are also on the horizon, which should be acceptable to everybody. “The bottom line,” says Sarcona, “is that we are constantly working with our hotel suppliers because of all the fluidity in the market. You have to be aware of the ever-changing hotel market as well as the changing needs of clients. If you understand your clients and have great relationships with hotels you should be able to do what’s necessary to make clients happy.”