

New Approaches to Hotel Sourcing

An ACTE Corporate Travel Study

October 2017





Foreword

While much of the business travel conversation focuses on air travel, accommodation is every bit as important for the traveller experience: your travellers cannot be productive if they are dissatisfied with their hotel room.

Changes in the fast-evolving lodging sector challenge the traditional models that buyers have grown used to. Increasing ADRs in major markets and the rise of alternative sleep arrangements (such as Airbnb) demand that buyers adapt to keep costs down and travellers satisfied.

Dynamic sourcing models can benefit all parties in the lodging ecosystem. Hotels can leverage technology to ease the onerous traditional RFP process, be more competitive and fill more rooms; corporate travel managers can get better rates and offer travellers more flexibility and choice.

However, as the research conducted for *New Approaches to Hotel Sourcing* shows, corporate travel managers are often not aware of how non-traditional sourcing models could benefit their programme. They may also be unclear how they can go about implementing alternatives to a traditional RFP.

New Approaches to Hotel Sourcing examines the experience of corporate travel managers who have made the change, and offers advice to help those managers who are yet to make the first step.

Key to successful implementation of a dynamic sourcing programme is education: ensuring your travellers know how it works and why they benefit. Travellers booking their own accommodation may be confused about why they're seeing different rates for different nights, or understanding how they should make their decisions. As travel managers increasingly take on the role of travel programme CEO, they have a critical role to play in helping travellers understand how dynamic sourcing fits into a broader, traveller-centric programme.

I would like to acknowledge the participation of the ACTE members around the globe who made *New Approaches to Hotel Sourcing* possible, and to thank BCD Travel who underwrote this study and contributed to its development.

Greeley Koch
Executive Director, ACTE

Introduction



The digital revolution has transformed travel – but one corner of managed business travel seems stuck in the old fashioned and inefficient manual practices of the past.

Few corporate travel managers who rely on traditional RFP-based hotel sourcing welcome the arrival of the annual sourcing season. They know all too well that the to-and-fro of negotiating room nights and rates will eat up hours of their time. They have been through the lengthy audit process before, only to discover that only half of their hard-negotiated rooms ever welcomed one of their travellers. And they'll have wondered to themselves: isn't there a better way?

We have worked with ACTE to try and answer this question: to help travel managers understand that there are alternatives that can make their managed travel programmes more effective – and simplify their lives.

New Approaches to Hotel Sourcing looks at the extent to which travel managers have adopted dynamic models and explores the difference it is making to their managed travel programmes. The study asks why some managers have stayed with traditional sourcing methods, despite the obvious disadvantages. Finally, it offers practical advice for managers who want to find an alternative sourcing strategy – but are unsure what approach would work best for them.

At BCD Travel we aim to simplify the conversation around managed business travel. With *New Approaches to Hotel Sourcing*, we want to start a conversation about how you can update your sourcing strategy and make it work harder for your travellers, for your programme goals and for you.

Charuta Fadnis

Sr. Director, Research & Analytics,
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About this study

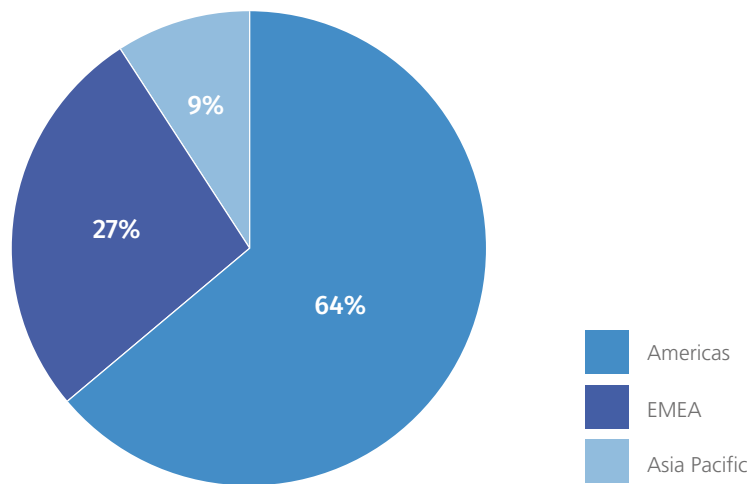
ACTE surveyed its global membership between August and September 2017.

A total of 128 corporate travel managers worldwide responded to the quantitative survey. Corporate travel managers based in Europe and North America also participated in focus interviews to provide qualitative insights.

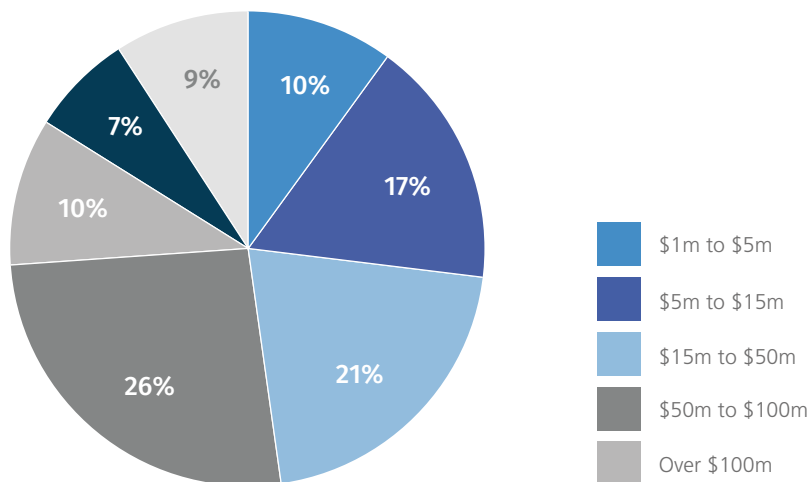
Note: on account of rounding, percentages used in this study may not add up to 100.

Fig 1 Research participants

Office location.



Size of programme.



Hotel sourcing strategies today

Technology is streamlining almost every aspect of travel – but, for many corporate travel managers, hotel sourcing is stuck in the pre-digital era. This season, following the same pattern as previous years, most hotel nights will be contracted via the manual and time-intensive process of RFPs.

Dealing with the resource-intensive annual process of RFP-based hotel sourcing continues to be a feature of many corporate travel managers’ job descriptions. This season, more than half (56 per cent) will source more than 50 per cent of their room nights via RFP, and 29 per cent will use RFPs to source at least three-quarters of their rooms (see Fig 2).

The RFP method is significantly more likely to be used by managers with an annual hotel spend in excess of US\$5 million. More than two-thirds (70 per cent) of these managers with larger hotel programmes are using RFPs to source more than half their rooms, compared to 42 per cent of buyers with hotel spends below US\$5 million.

Fig 2 Proportion of room nights sourced via RFP: this sourcing season.

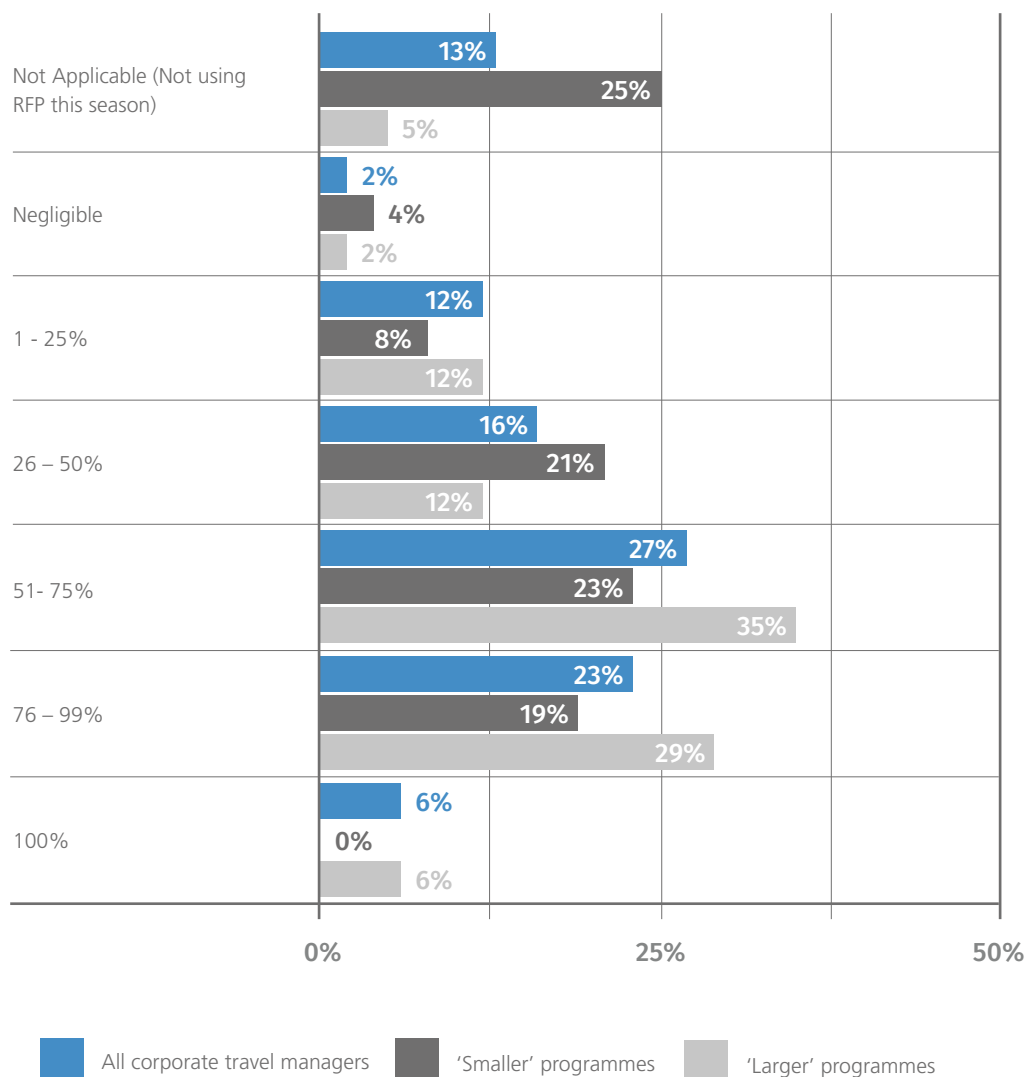
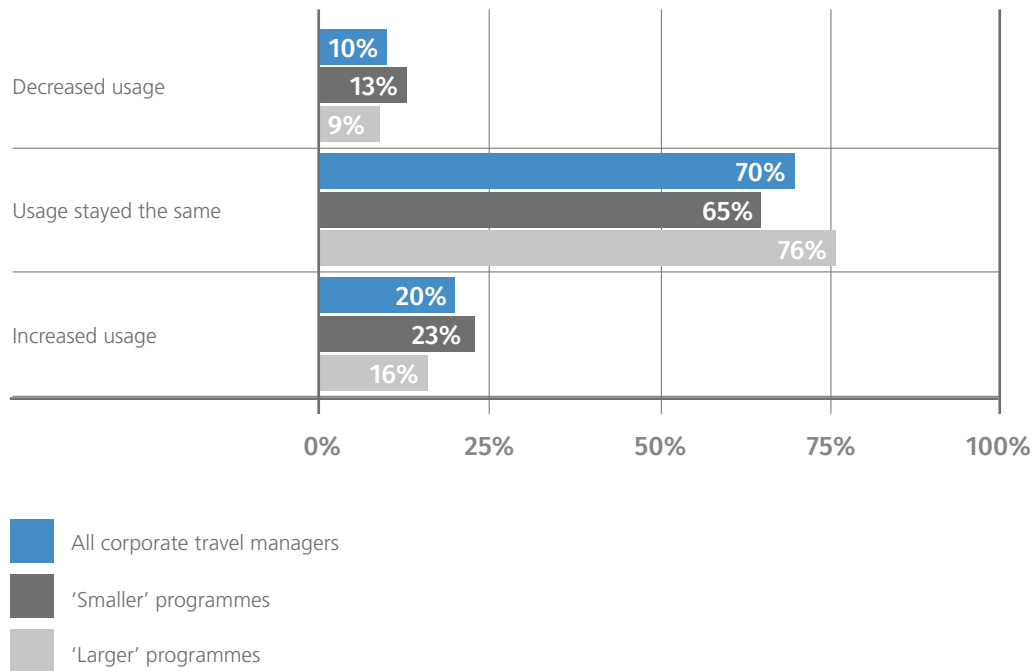


Fig 3 RFP usage: current versus previous sourcing season.



Counting the cost

The RFP method is time-consuming, both for set-up and ongoing maintenance (see Fig 4), and weighs more heavily on corporate travel managers with larger hotel programmes (see Fig 5). The majority will spend more than 50 hours this season contracting their room rates, and more than half will devote at least the same amount of time to maintaining the rates.

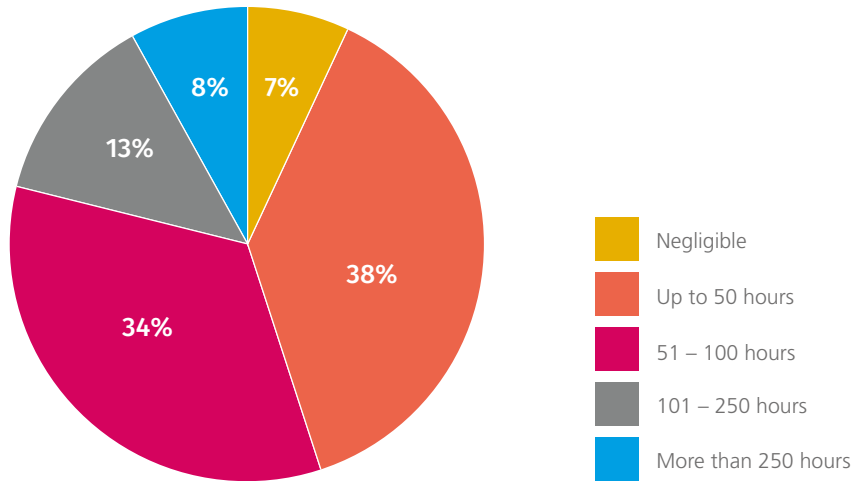
For managers of the very largest programmes, the ability to accomplish sourcing in as little as 50 hours may seem impossibly optimistic: a handful of travel managers in our survey book over half a million room nights annually, and overwhelmingly (90 per cent) contract at least half (and, in some cases, all) of those rooms via a traditional RFP. To accomplish that, 27 per cent devote more than 500 hours to set-up, and at least 500 additional hours to ongoing maintenance. Interestingly, none of those largest programme managers fully outsource their RFP set-up or contracting.

Looking at smaller programmes, the RFP process appears to present less of an administrative burden. That said, one-third of managers with smaller programmes will spend more than 50 hours this season setting up their negotiated rates.

Fig 4 The RFP time commitment.

Time expected to be spent on set-up and ongoing maintenance.

Set-up.



Maintenance.

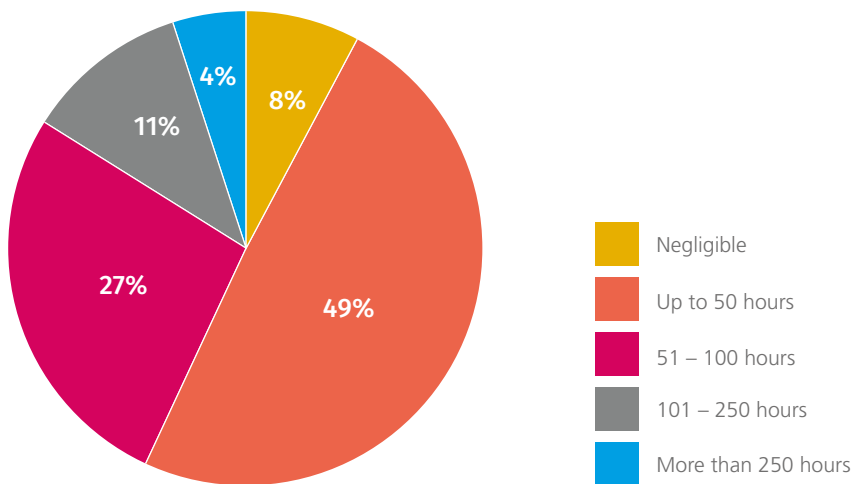
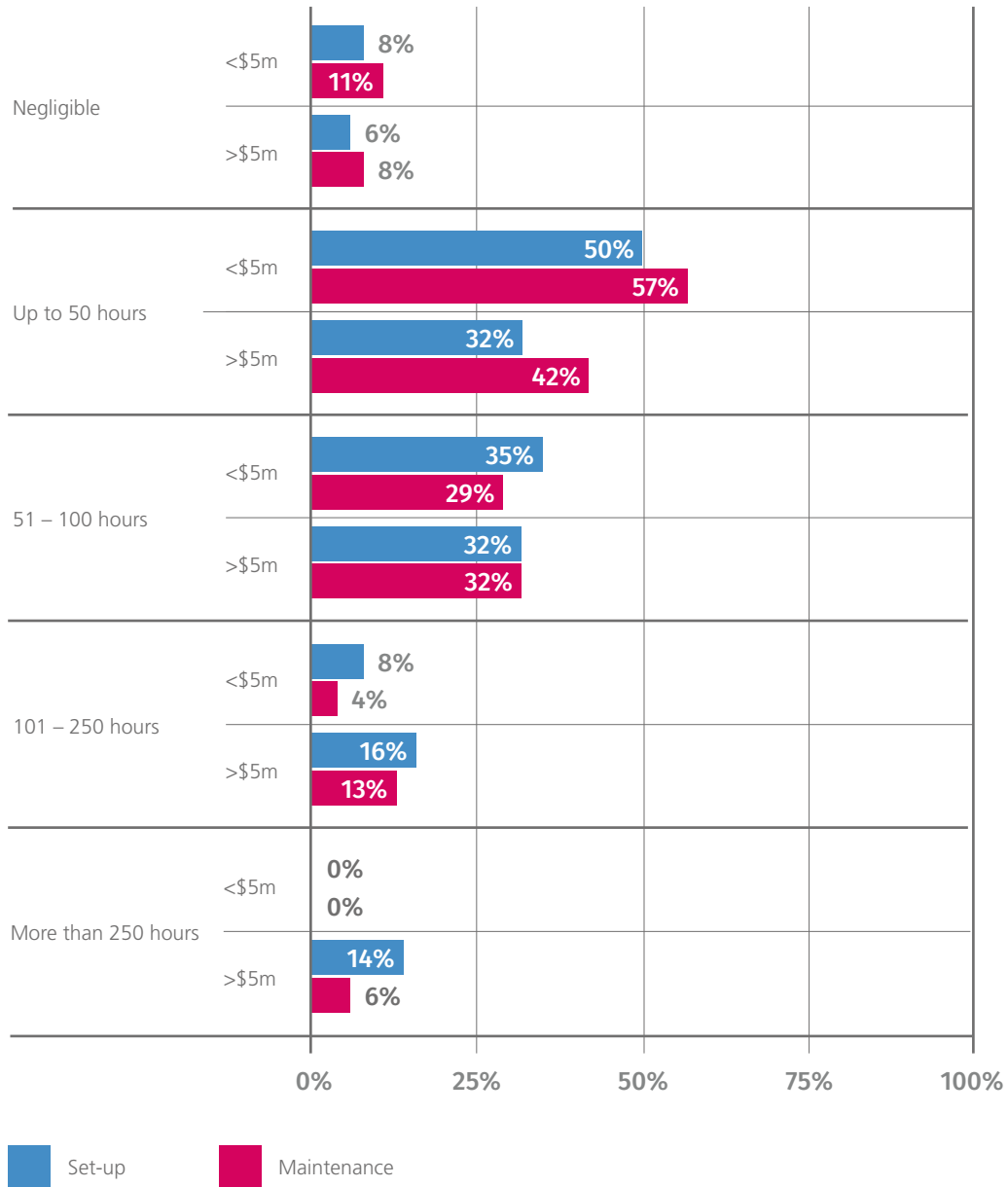


Fig 5 Time expected to be spent on set-up and ongoing maintenance: ‘smaller’ versus ‘larger’ hotel programmes.



“Hotel sourcing is so painful. You start the process in September, and two weeks before year-end, you’re still trying to get rates.”

Travel manager, United States

Will the situation improve?

Interviewing corporate travel managers for *New Approaches to Hotel Sourcing*, none are optimistic about the RFP-based process becoming easier to manage. If anything, running traditional sourcing is becoming more difficult and less rewarding as the marketplace changes.

Leakage was one reason mentioned by interviewees: *“It’s a challenge to keep travellers in the programme,”* observed a Netherlands-based travel manager. *“They go to an aggregator like Booking.com and they believe they are getting the best price.”*

Another challenge to traditional sourcing cited by travel managers comes from the hotels themselves as they adopt airline-style yield-pricing and strive to grow direct sales: *“Prices are fluid and hotels offer cheaper and cheaper rates for direct bookings. Members of IHG Rewards or Starwood Preferred Guest can get much cheaper rates than I can.”*

Against this background of change, the slow-moving RFP-based approach looks increasingly out of date.

Time for a change?

Given the time commitment associated with a RFP, why does such a large proportion of corporate travel managers stick with this traditional method?

For most corporate travel managers, RFP-based sourcing seems to work—most of the time. Nearly two-thirds (63 per cent) achieved more than half their rooms at the negotiated rate in their last sourcing cycle, and more than a quarter (27 per cent) realised an attachment rate of more than 75 per cent (see Fig 6).

However, many managers are missing out: more than a quarter (27 per cent) achieved less than half their rooms at the negotiated rate. Perhaps most worryingly, 11 per cent of managers using RFP-based sourcing did not know how often they had achieved their negotiated rates. As one travel manager commented: *“We just don’t have good data to measure effectiveness of the discounts we negotiate.”*

The RFP-based method seems not to be compelling for many managers: just over one third (38 per cent) believe it gives them the best ROI (see Fig 7). Given this, it is not surprising that they are considering their options. Over two-thirds (69 per cent) are not happy with the performance of traditional sourcing or want to change (see Fig 8). Just 22 per cent are satisfied with their current method and want to stick with it.

Fig 6 Percentage of total room nights booked at preferred/negotiated rate in last sourcing cycle: managers using traditional sourcing.

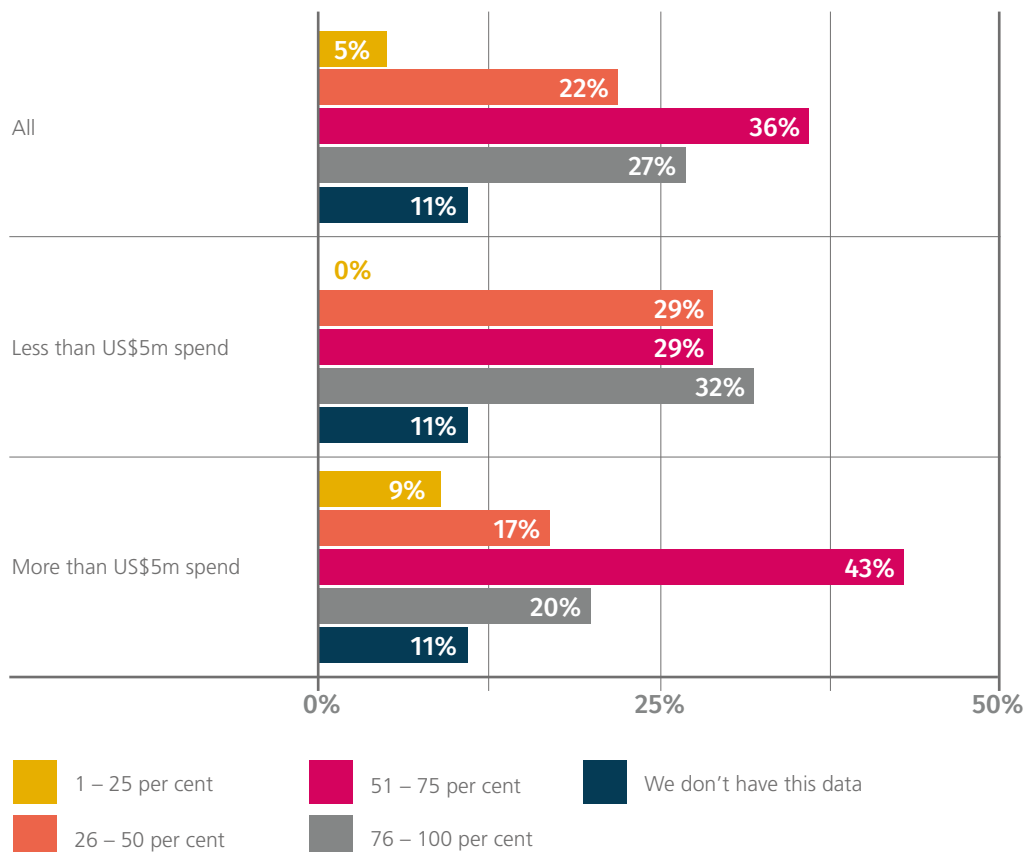


Fig 7

Reasons for remaining with RFP-based sourcing	
Traditional sourcing gives me the best ROI	38%
Not aware of alternatives	8%
Available alternatives do not offer sufficient ROI to change	14%
Data is not available to support a change	19%
Available alternatives too difficult to implement	22%

Fig 8

Hotel sourcing plans, next 1 -2 years	
Satisfied with current approach and will stick with it	22%
Not satisfied with current model - do not see realistic alternative	17%
Definite plans to introduce a dynamic model	9%
Want to change but do not have definite plans	43%
Not considered / Do not know	9%

Barriers to change

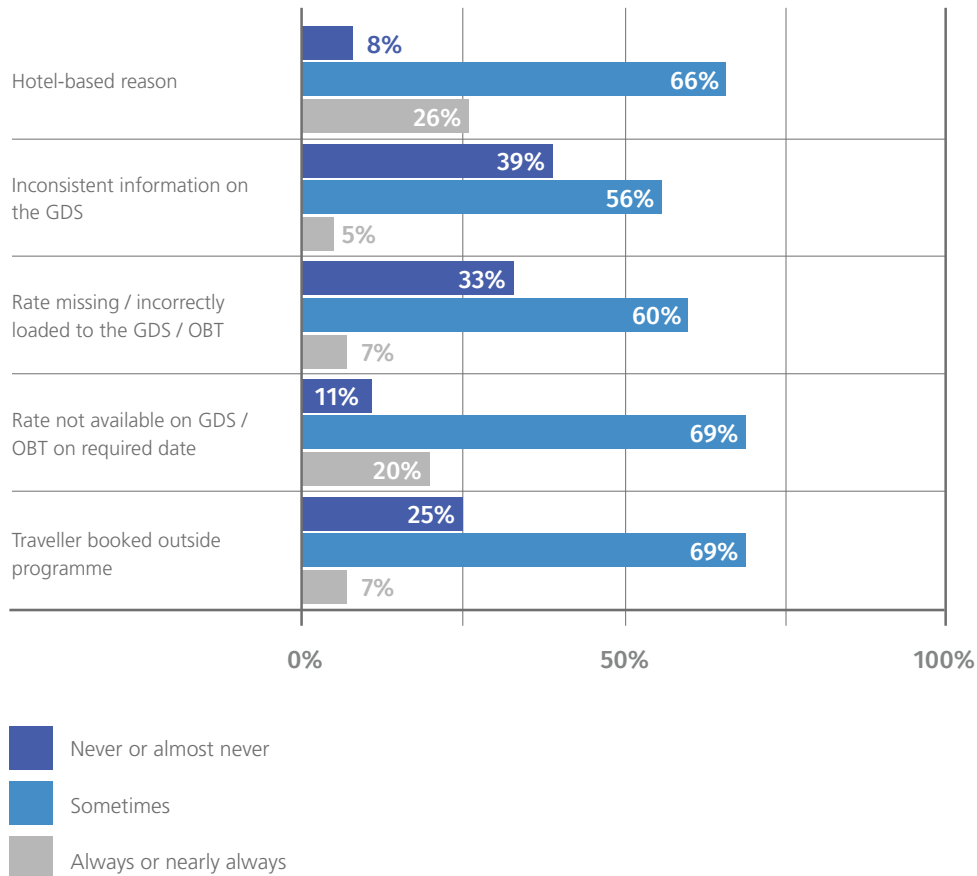
The desire to change is there, but corporate travel managers appear to find it difficult to translate that into action. Forty-three per cent want to introduce an alternative sourcing solution, but are unsure how to do it. More than one-in-five (22 per cent) rule out making a change because they believe the alternatives are too difficult to implement. Managers with larger hotel programmes feel this most acutely: they are twice as likely as their counterparts with smaller programmes to believe alternatives to traditional sourcing are out of their reach.

What went wrong

When corporate travel managers fail to get the negotiated rate, they are most likely to attribute the discrepancy to the hotel. Ninety-two per cent will say the hotel is usually (66 per cent) or always (26 per cent) the cause. Typical issues mentioned by buyers during the interviews for this study included black-out days, the negotiated room type not being available or the general lack of inventory in key cities. One US-based travel manager commented: *“The fact is that some demand markets, such as Boston or San Francisco, don’t have enough total inventory to go around.”*

Leakage is also part of the story: when travellers book outside the programme, managers will not achieve their best negotiated rates. Sixty-nine per cent of travel managers acknowledged this is ‘sometimes’ a contributing factor.

Fig 9 Travel managers using RFP-based sourcing identify barriers to achieving the negotiated rate*



* Respondents could select multiple options.

“There’s a lot of pain with RFPs. It takes a lot of time, setting up and reviewing. It doesn’t offer us ROI. And hotels don’t like it. I know that if I tried to use RFP with a new property it would damage the relationship I’m trying to build.”

Travel manager, United States

The dynamic alternative

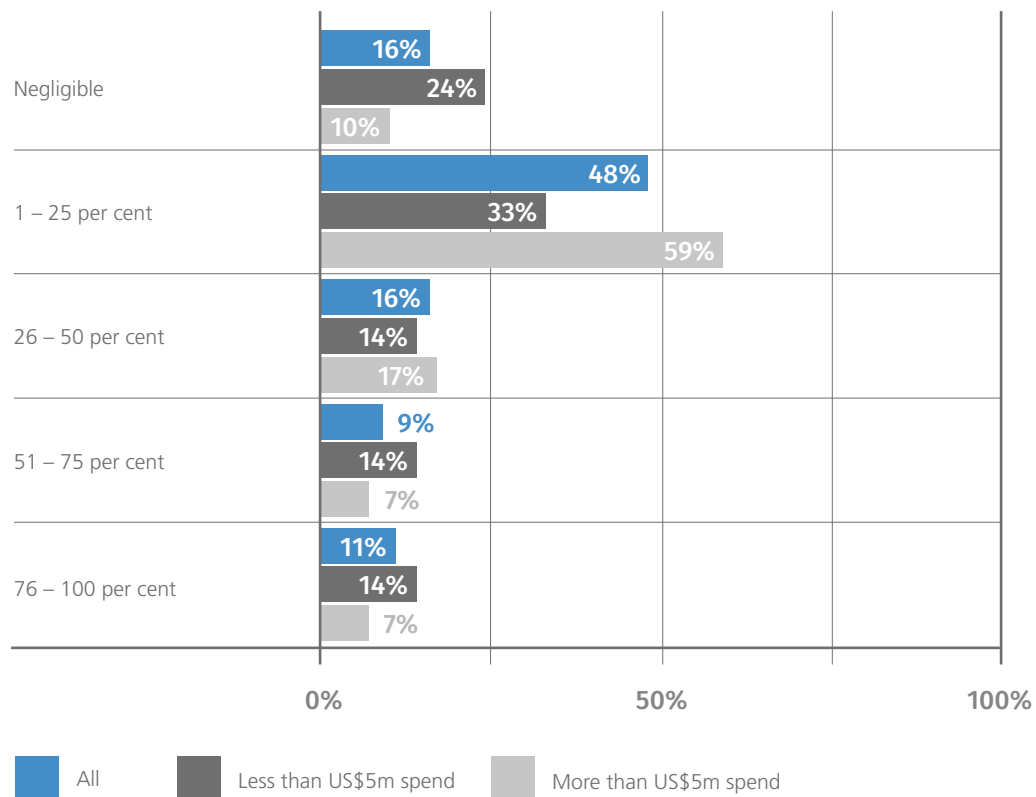
Many corporate travel managers are unhappy with traditional methods of hotel sourcing. Dynamic programme management may offer them an effective alternative.

Today, many corporate travel managers are exploring the potential of dynamic sourcing and management. Confirming the trends seen elsewhere,¹ 42 per cent of managers are using some degree of dynamic programme management to source hotels.

Despite concerns that non-traditional alternatives will be too difficult to implement, managers with larger hotel programmes are more likely to use a dynamic model than their counterparts with smaller programmes for some portion of their hotel sourcing. However, managers with smaller programmes tend to be more ambitious about the way they deploy the model: forty-four per cent use dynamic models for most or all markets, compared to just 24 per cent of 'larger' managers.

Overall, one-in-five (20 per cent) managers are using the dynamic model to source at least half of their room nights (see Fig 10).

Fig 10 Percentage of travel managers using some degree of dynamic sourcing.



¹ 9 Key Findings from BTN's 2016 Corporate Travel 100. Business Travel News, 9 January 2017

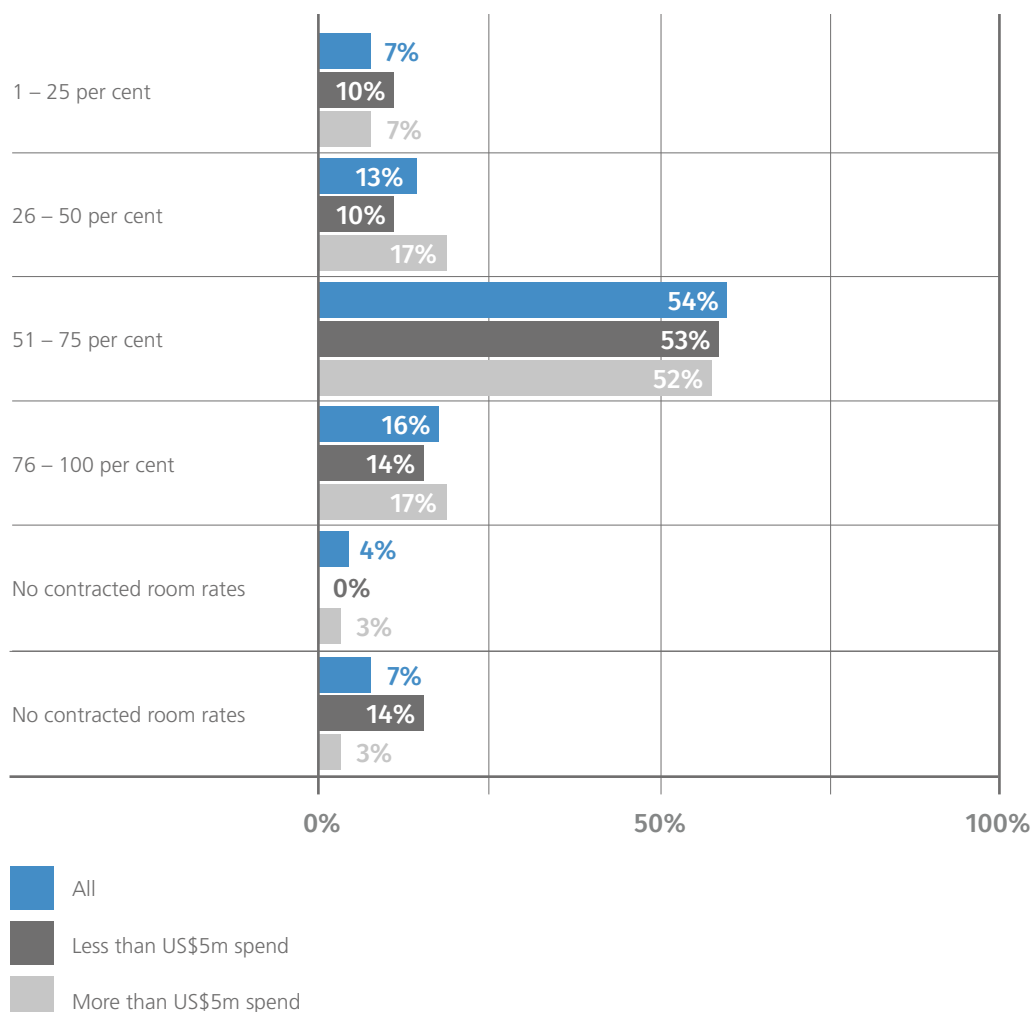
Performance of dynamic versus other models

Looking at attachment—the rate at which corporate travel managers using dynamic models achieved their negotiated rate—offers some insight into the performance of this approach.

The research found that more than two-thirds (70 per cent) of managers using dynamic for some portion of their hotel sourcing got more than half their rooms at their negotiated rate in the last sourcing cycle (see Fig 11). Performance was broadly similar across managers with ‘smaller’ and ‘larger’ hotel programmes. By contrast, just 63 per cent of managers who relied on traditional RFP-based sourcing achieved attachment of at least 50 per cent.

Managers using dynamic models for some portion of their hotel sourcing also outperformed their ‘traditional’ peers when it came to visibility on attachment. Managers leveraging dynamic sourcing are significantly (36 per cent) less likely to say they lack data on their attachment levels.

Fig 11 Percentage of total room nights booked at preferred/negotiated rate in last sourcing cycle: managers using dynamic sourcing.



Benefits for the managed travel programme

Asked to focus specifically on the advantages they had experienced by switching from traditional to dynamic models (see Fig 12), travel managers homed in on strategic improvements that tend to contribute to the success of the travel programme as a whole.

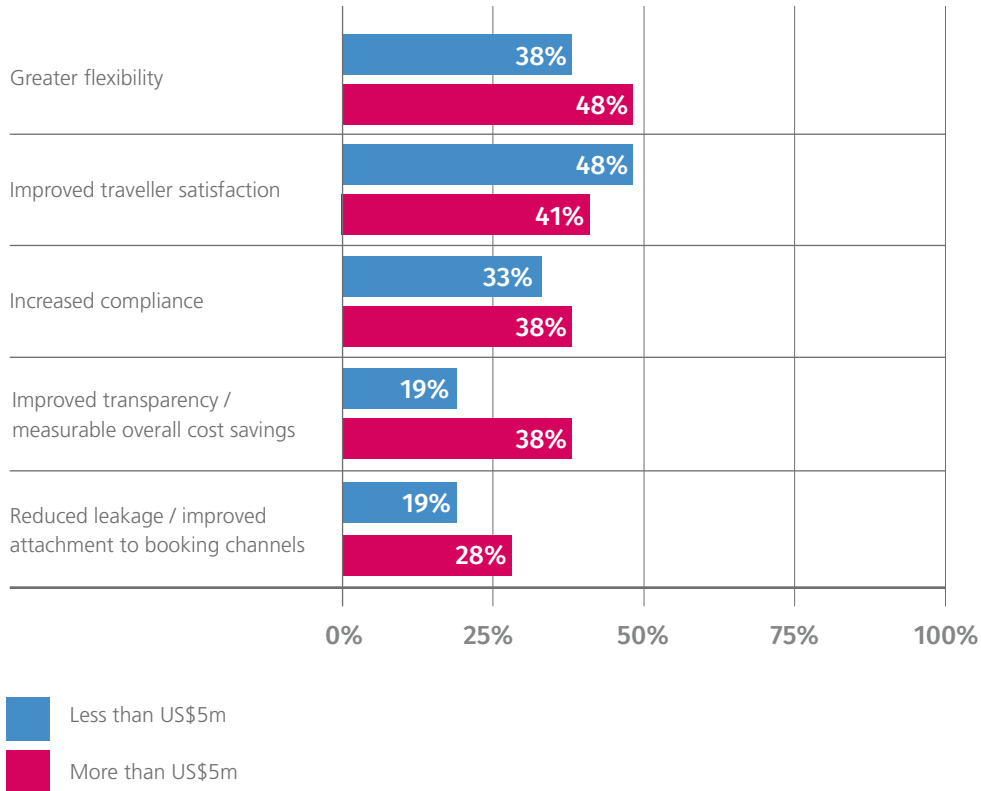
Managers with larger hotel programmes were significantly more likely to experience these advantages. Almost half (48 per cent) report that dynamic sourcing has given them greater flexibility, versus 38 per cent of managers with smaller programmes (see Fig 13). A similar pattern occurs for increased compliance, transparency and reduced leakage. However, managers with smaller hotel programmes were more likely to see a performance uptick on the metric of traveller satisfaction resulting from their switch to dynamic sourcing.

Managers who continue to use traditional hotel sourcing mentioned more tactical issues, such as negotiated rate versus industry benchmarks and average room rate, as the top advantages arising from their approach.

Fig 12

Top 5 improvements from switching to dynamic sourcing	All respondents
1.Greater flexibility	44%
2.Improved traveller satisfaction	42%
3.Increased compliance	33%
4.Improved transparency / measurable overall cost savings	29%
5.Reduced leakage / improved attachment to booking channels	22%

Fig 13 Corporate travel managers with hotel spends in excess of US\$5m see bigger gains from the switch to dynamic sourcing.



A dynamic future

Including dynamic sourcing within their hotel programme generates numerous benefits versus traditional RFP-based sourcing. But are the gains sufficient for managers to maintain this approach in the future? Overwhelmingly, the answer is ‘yes,’ with the majority (83 per cent) intending to continue or expand their dynamic sourcing over the next one to two years (Fig 14). This figure is similar for both smaller and larger programmes.

One important proviso: the research suggests that a dynamic model may not always deliver gains for every programme. Nearly a quarter (24 per cent) of managers say they have not experienced any significant improvements from their use of dynamic sourcing (although the majority, 69 per cent, of these managers intend to continue using a dynamic model).

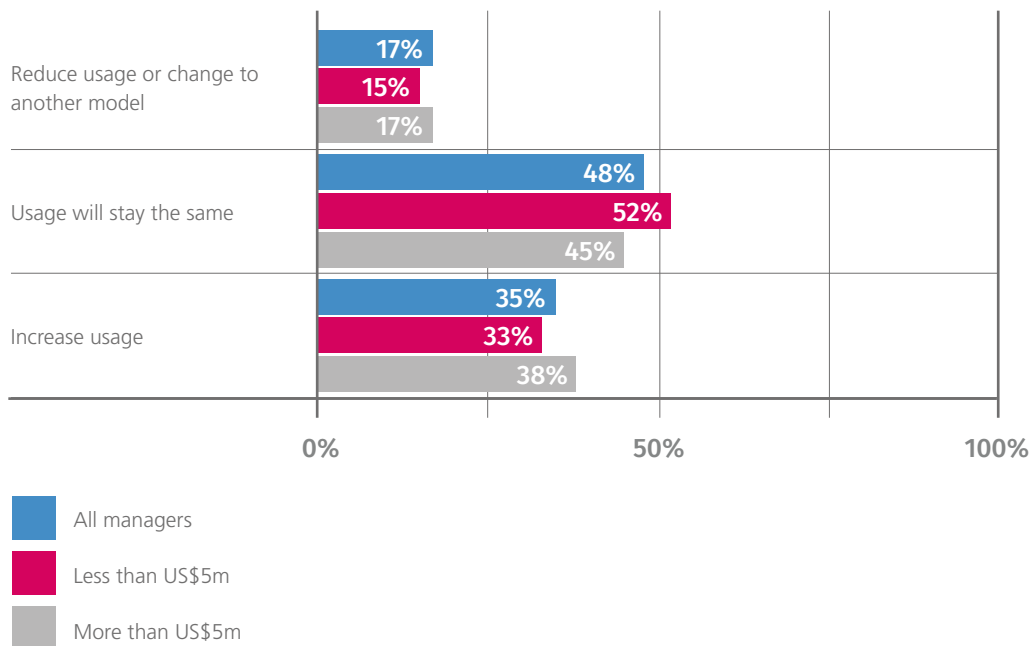
From the interviews conducted for *New Approaches to Hotel Sourcing*, it was evident that managers adopt different approaches, mixing and matching depending on the needs of their programme. One US-based travel manager explained how she used dynamic sourcing models in some cities, and sourced on a rate renewal basis in others. *“It’s all about the destination and our travellers’ needs. In some cities, we use rate renewal. In other cities, where perhaps we have lower volumes, we use dynamic sourcing.”*

The impact of new technologies

Travel managers and hotels agree that traditional sourcing often generates a huge administrative burden and does not deliver ROI. The research undertaken for this study reveals that dynamic sourcing models are already enabling corporate travel managers to improve the performance of their hotel programmes.

The emergence of smart contract technology is set to deliver even greater gains and transform the way many managers source and manage their hotels. By automatically implementing the terms of agreements with their preferred hotels, smart contracts will further reduce the time that managers devote to administration. Automatic rate updates will improve accuracy. As more managers and hotels make smart contracts part of their programme, attachment rates are likely to increase.

Fig 14 Buyer plans for dynamic sourcing, next 1-2 years.



Find the best sourcing solution for your programme

A dynamic approach to hotel sourcing can deliver real benefits for corporate travel managers with both smaller and larger hotel programmes. How can managers decide if it is right for them?

- **Identify the right sourcing strategy for your programme:** none of the corporate travel managers who participated in this research exclusively use dynamic sourcing. Instead, they use a variety of approaches depending on the specific needs of their travellers and their wider managed programme. This travel manager, based in Israel, summed up the rationale for this approach: *“We’ve used a global RFP up to now, but next year we will probably need a hybrid, with a classic RFP for high-volume locations and more flexible approaches elsewhere, depending on conditions.”*
- **Include your travellers in the picture:** your travellers need to be on board with your sourcing strategy for it to deliver the benefits described in this study. Help them understand how they can make the best booking decisions by staying within your programme and using your tools; and explain to them how your new approach will give them a better experience.
- **Explore and experiment:** many managers stick with an underperforming hotel sourcing approach because they believe it would be too difficult to implement an alternative. A limited trial, restricted to a handful of markets, will allow you to see what works and make informed decisions about the future of your hotel sourcing strategy.
- **Talk to suppliers to understand your options:** many managers want to change their approach, but they are not clear about the available alternatives. Talk to your TMC or other hotel sourcing providers about the options that could work best for you. In this fast-moving area, it also makes sense to keep up to speed with news about the latest industry studies on hotel sourcing strategies, including dynamic programme management.

The corporate travel managers who participated in this survey are all too aware that the hotels marketplace is changing, and fast. They understand that their sourcing strategy cannot be static. Getting to grips with the available alternatives, and understanding how they can fit with their managed programme, will ensure you can continue to deliver both for your travellers and for your organisation.

Dynamic sourcing leaders share their experiences

New approaches to hotel sourcing asked corporate travel managers to describe how they are using dynamic programme management. Here, in their own words, are some of the ways they are putting non-traditional sourcing to work for their programmes.

"We combine traditional and non-traditional by starting with a basis discount program that we tweak during the course of the year based on needs. Our traveller opinion matters a tremendous deal to us, and there are hotels that we have removed from our programme due to poor traveller experience."

"We monitor Associate usage; feedback on the property; and spot check market rates every 90 days—10 markets a month. We have found that this keeps the properties from becoming too used to our business, and keeps them competitive for our transient spend."

"Dynamic priced hotels are used as 'back up' to our negotiated hotels in all markets, and they serve as discounted options where there are no negotiated options to select from. Our compliance rate is very high (80 per cent), so dynamically priced hotels fill in the smaller portion of demand."

"The vast majority of our US programme is on dynamic pricing. We have a small number of hotels that are fixed pricing (less than 50 in total) either because they are not part of our preferred chains or they are in high-compression markets. We monitor rate variance year-over-year; overall average daily rate compared to market and room nights at property level to see if we need to switch a property from chain-wide to preferred dynamic or vice versa."

"Communicating to your travellers is vital. With dynamic sourcing, you need to manage expectations and make sure they know how the system works. When a conference is in town, room rates shoot up and that can come as a surprise."



About the Association of Corporate Travel Executives (ACTE)

The Association of Corporate Travel Executives (ACTE) has a 29-year reputation for leading the way corporate travel is conducted. As a global association comprised of executive-level members in more than 100 countries, ACTE pioneers educational and technological advances that make business travel productive, cost-effective and straightforward. ACTE advocacy and initiatives continue to support impactful changes in safety and security, privacy, duty of care and compliance along with traveler productivity that supports global commerce.

Learn more at www.acte.org.

About BCD Travel

BCD Travel helps companies make the most of what they spend on travel. For travelers, this means keeping them safe and productive, and equipping them to make good choices on the road. For travel and procurement managers, it means advising them on how to grow the value of their travel program. In short, we help our clients travel smart and achieve more. We make this happen in 108 countries with almost 13,000 creative, committed and experienced people. And it's how we maintain the industry's most consistent client retention rate (95% over the past 10 years), with 2016 sales of US\$24.6 billion. For more information, visit www.bcdtravel.com.

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