

Room for Savings: Optimizing Hotel Spend

A CWT White Paper

A practical overview for optimizing hotel spend

The latest in-depth research by the CWT Travel Management Institute brings actionable insights to companies aiming to manage their hotel spend more effectively. Three key findings highlight both the issues facing travel managers and best practices that enable companies to achieve savings while enhancing service and security for travelers.

In-depth research by the CWT Travel Management Institute

For an in-depth understanding of the hotel market and issues faced by travel managers, CWT combined several research techniques:

- **Surveys** of travel managers, travelers and travel arrangers
- **Interviews** with experts from across the corporate hotel industry
- **Analyses** of CWT client transactions, credit card spend data and hotel rates, including detailed case studies

This study was carried out from May 2008 to January 2009 and involved a wide sample of respondents in terms of company size and industry, travel managers' scope of responsibility and travelers' home region.

It is the latest in a series of reports on the **eight key levers to effective travel management** identified by CWT.¹

A complex market

Travel managers need to understand the complexity of the hotel market when designing their hotel sourcing strategy and travel policy. Key features include:

- **A vast number of suppliers.** More than 250,000 hotels receive corporate travelers worldwide.
- **A lack of global standards** to define hotel quality.
- **Diverse markets.** Each city is unique in terms of economic conditions, the average size of hotels and negotiation styles.
- **Complex pricing.** Hotels use different pricing strategies to take into account supply and demand.
- **Fragmented distribution.** Many hotels do not provide inventory to global distribution channels.

Key finding #1: Hotel spend is often underestimated, although it represents nearly 40 percent of the total travel budget on average.

To arrive at this figure, CWT used three different methodologies, including case studies that reveal companies can spend as much as 46 percent on hotels, nearly as much as on air transportation. This finding may surprise travel managers, who estimate their hotel spend at just 28 percent of the travel budget on average. Nevertheless, travel managers acknowledge the importance of optimizing hotel spend, making it a higher priority in their travel programs.

Key finding #2: Companies can save 21 percent of hotel spend by adopting best practices in hotel spend management.

These savings are found in four main areas:

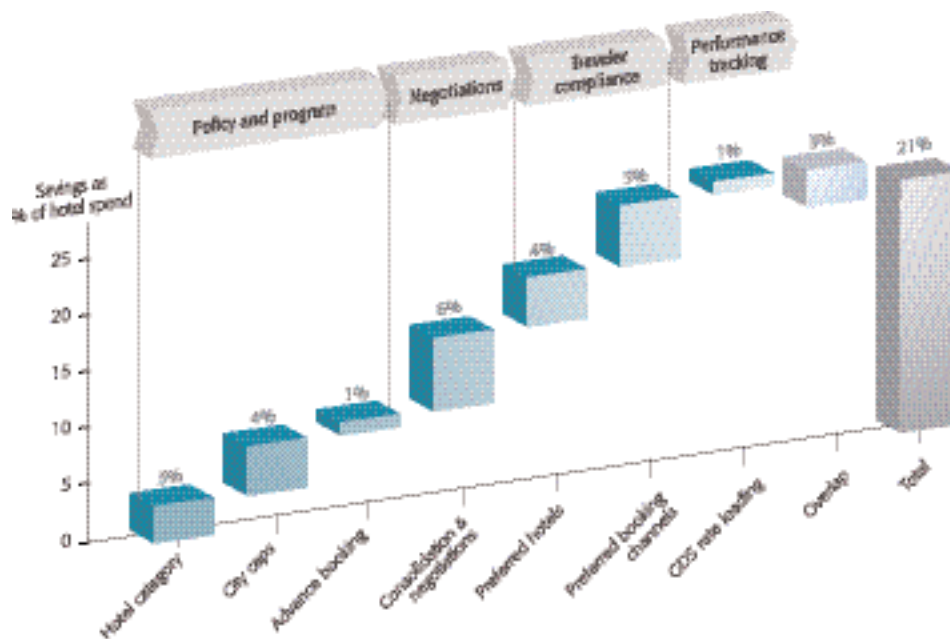
- **Traveler compliance** with hotel policy (preferred hotels and preferred booking channels): 9 percent
- **Policy and program** (hotel category, city caps and advance booking): 8 percent
- **Negotiations** (including consolidating the hotel program regionally or globally): 6 percent
- **Performance tracking** (including rate loading into global distribution systems): 1 percent

These figures take into account an estimated 3-percent overlap in savings when improvements are made in several areas at the same time (e.g., savings achieved by booking through the travel management company are partly due to preferred hotels being used more often).

¹ The eight key levers to effective travel management are: provide the right services and assistance to travelers and optimize transaction processing, tackle hotel spend in a disciplined and professional manner, continue to drive air and ground transportation savings, increase policy compliance and optimize demand management, address security needs and corporate social responsibility, integrate meetings and events in the travel program to control and optimize the related spend, and develop executive dashboards and actionable performance measures.

Figure 1 illustrates the savings companies can achieve when they move from average performance to best-in-class performance.

Figure 1: Companies can save 21% of total hotel spend by adopting best practices in hotel spend management



Source: CWT Travel Management Institute

Note: This savings estimate does not take into account year-over-year inflation. CWT calculates a 3-percent overlap between savings derived in the different areas. For example, savings achieved by booking through the travel management company are partly due to preferred hotels being used more often.

Key finding #3: Seven steps enable companies to optimize hotel spend

■ Consolidate spend data.

Comprehensive data is essential for buyers to leverage maximum volumes during negotiations, check that travelers are being charged the correct rate at preferred hotels, and monitor policy compliance. Yet the required data is notoriously difficult to gather and companies usually need to “cleanse” data from several sources (e.g., by harmonizing different coding systems and eliminating duplicate entries), which can be challenging. This partly explains why 39 percent of travel managers believe they capture at most 75 percent of their hotel spend data.

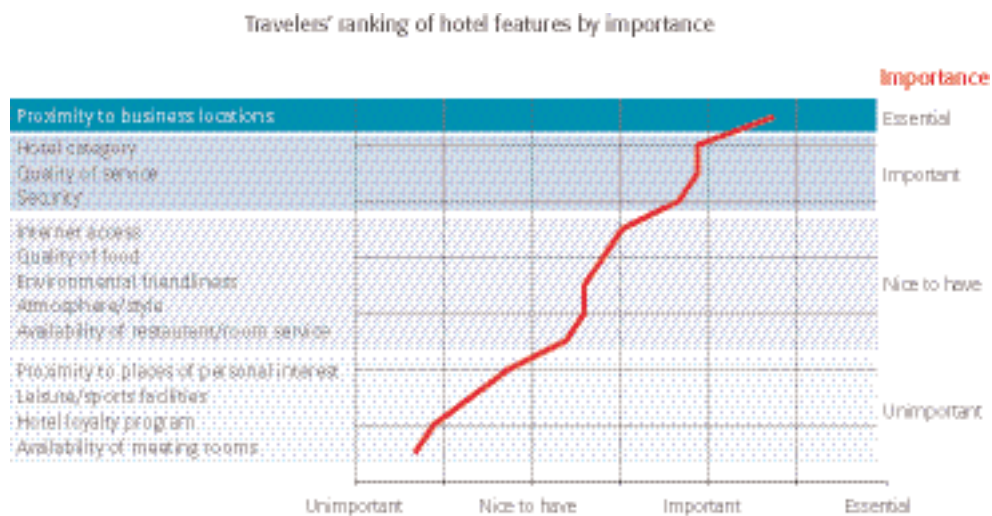
Nevertheless, it is possible to obtain all the necessary data from reports on **TMC transactions and corporate credit card payments**, and consolidate it with the help of specialists such as the TMC. Ideally, travel managers also ask chain hotels to provide e-folios (itemized electronic invoices), where available, for a better understanding of spend on amenities.

■ Understand traveler needs and behavior.

Needs vary among **four segments** identified by CWT (“comfort seekers,” “demanding customers,” “easygoing guests” and “pragmatic travelers”) and travel managers should take these into account when designing their hotel programs. As a general rule, travelers place **practical considerations before comfort**. Surveyed travelers say a hotel’s proximity to business locations is critical, far ahead of hotel category, the next most important hotel feature (Figure 2).

Although travelers tend to choose higher-category hotels for longer stays, the **category does not appear to be a direct driver of satisfaction**.

Figure 2: Proximity to business locations ranks highest among hotel features for travelers



Source: CWT Travel Management Institute
Based on a survey of travelers (4,564 responses)

Similarly, travelers take a “no frills” approach to booking, ranking features such as photos and traveler feedback low in importance compared to speed and convenience. Contrary to popular belief, travelers tend not to shop around when booking a hotel and just 14 percent surf the Internet for this purpose. Thirty-five percent of travelers know where they want to stay before booking, which could explain why travelers place fairly low importance on having a wide choice of hotels and receiving advice from the travel management company.

■ Design an effective hotel policy.

Mandates should be used, as travelers are more likely to comply with policy requirements than simple recommendations. In particular, companies should **mandate the use of preferred hotels** whenever available. This said, some companies authorize non-preferred alternatives if they are significantly cheaper, at the risk of diluting the volumes spent at preferred hotels and decreasing related savings. In this case, CWT recommends stipulating that the room rate must be at least 20 percent cheaper.

At the same time, companies should provide **clear guidelines on what to do when preferred properties are unavailable**, including using a preferred chain, respecting a city cap, and following recommendations made by the TMC or online booking tool. Another important rule is booking through TMC channels, which

enables travelers to access significantly lower prices both at preferred and non-preferred hotels. (CWT research shows prices are on average 18-21 percent lower.) In addition, booking through the TMC enables travelers to be tracked in the event of an emergency and saves them time when booking. An effective hotel policy also mandates **booking at least two weeks in advance** whenever possible and paying by corporate credit card. Finally, reimbursable/non-reimbursable **amenity charges** should be addressed in the hotel policy.

■ Optimize the preferred hotel program.

A methodical approach can help companies select the right hotels in the right locations. First, they should consider any property or location that accounts for at least **US\$10,000** in spend, bearing in mind that this threshold can vary between markets and companies. As volume discounts are at stake, buyers should **concentrate spend** on the smallest number of properties that meet the company's needs. Moreover, significant savings can be achieved by reviewing the hotel **categories** included in the program. With an average rate difference of 21-25 percent between categories, it is worth considering a **multi-tier program**, providing a range of properties for different populations of travelers or different destinations (e.g., lower categories for domestic travelers or specific business units).

Another important decision is whether to retain current providers

or work with **competitor hotels**. Although the latter may offer savings, CWT research indicates that companies that retain at least 80 percent of their preferred hotels from year to year tend to be more effective at limiting rate increases than companies that introduce more changes. In addition to providing the right services for travelers at the best rates, an effective hotel program should address **security concerns** and **environmental friendliness**.

■ Negotiate effectively.

Approximately one-third of companies sign deals with at least 100 properties and therefore need to vary their approach depending on the expected return on investment. Top-volume properties require **full-scale negotiations** using all possible negotiating levers. This might mean including spend on amenities, which can inflate the cost of a hotel stay by up to 33 percent, and conducting multiple rounds of negotiations. Other hotels may be approached with **“light” property-level negotiations**. When companies do not meet the room night/spend threshold for negotiating property-level agreements, they can strike **chain-wide deals** to extend their hotel program.

Although flat-rate agreements are generally recommended for preferred properties, some companies have opted for **dynamic pricing** deals. The latter, which provide a percentage discount off the hotel’s public best available rate, can bring savings compared to flat-rate deals when conditions are right (e.g., when hotels provide regular reporting and agree to renegotiate rates if the company’s rates evolve less favorably than the corporate market average).

Where possible, companies should negotiate **last-room availability** (i.e., a hotelier’s commitment to offer the negotiated rate even if only one room of the negotiated type is available). This results in lower average room rates over the year, even if up-front negotiated rates tend to be slightly higher.

If market conditions change in favor of buyers, companies should consider asking preferred hotels to renegotiate rates during the year.

■ Improve traveler compliance.

Policy compliance is notoriously low for hotel bookings: case studies show that as few as 26 percent of transactions involve preferred hotels and 20 percent go through preferred booking channels. **Higher levels of compliance are possible**, although companies cannot expect 100 percent use of preferred hotels, as no program can cover all destinations.

Among the best practices are ensuring the preferred hotel directory is up-to-date and easily accessible, communicating the travel policy to travel arrangers as well as travelers,

configuring the corporate online booking tool to promote compliance, and taking follow-up action when travelers fail to comply. Moreover, the hotel program should be reviewed regularly to take into account travelers’ needs, as travelers most often cite **practical business reasons for booking non-preferred hotels** (even though surveyed travel managers tend to consider non-compliance as driven mainly by travelers’ personal preference).

■ Track performance.

Close monitoring is key to the success of a hotel program in terms of improving traveler compliance, ensuring hoteliers deliver the agreed conditions, and taking corrective action as needed. As a general rule, compliance tracking could be improved by looking at **indicators beyond the use of preferred hotels**, which travelers do not always have access to. Examples include the use of appropriate room types and compliance with city caps.

Moreover, companies should conduct **regular audits of rates** loaded into global distribution systems (GDSs) and **last-room availability**, as many errors tend to occur. In fact, in five case studies, only 50 percent of rates were loaded correctly in the initial period following negotiations and incorrect rates were on average 15 percent higher.

Another study showed that **squatter hotels** (i.e., non-preferred properties that erroneously use the GDS codes intended for a company’s preferred hotels) accounted for 4-5 percent of two companies’ bookings and were on average 3-21 percent more expensive than preferred hotels.

Conclusion

Corporate buyers can take concrete steps to create more value by working with specialists in hotel sourcing and program optimization. As this research shows, optimizing hotel spend offers many companies lots of room for savings.

For more information about how CWT experts can help your company optimize hotel spend, please contact your CWT sales or program manager or email us at tmi@carlsonwagonlit.fr.

The full report *Room for Savings: Optimizing Hotel Spend* is available at www.carlsonwagonlit.com.