U.S. Corporate and Contract Hotel Rate Negotiations for 2021 Forecast – Negotiating at a Time of Unprecedented Uncertainty

TREND ANALYSIS REPORT

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U.S. corporate and contract rate negotiation season would normally have started this month as it has every year for the past 60 years, beginning soon after Labor Day and continuing into December.

This year the number of uncertainties include how much business travel should and will there be, how long widespread quarantining after arriving in destination cities and returning from destination cities will continue, willingness to travel for business and meetings, the outlook for hotel room rates, if there might be subsequent COVID-19 outbreaks, and when allied sectors in destination cities will be operational to support business travel and meetings (restaurants, attractions, convention centers, forms of transportation used by convention attendees, etc.).

Every year since 2011 the balance of power between buyers (such as corporate travel managers) and sellers (such as hotel directors of sales and marketing) has favored sellers because of increasing hotel occupancy, and forecasts for increases in average daily rate that at the time of negotiations were for higher rates than the average daily rate increases that were realized.

For 2021, generally buyers have somewhat of the advantage, although most buyers have dramatically less travel volume and more uncertainty and therefore less with which to negotiate, and most sellers are facing the lowest occupancies in history (generally forecast to be 50 percent for the U.S. for 2021) and the largest decrease in average daily rates in history (20 to 35 percent). Meeting and convention-oriented hotels are generally facing the largest declines in occupancy and average daily rate, followed by business-oriented hotels, with leisure-oriented lodging expecting the smallest, but still large declines.

Making the negotiations even more difficult is that buyer and seller staffing is reduced in many organizations with employment reductions and furloughs.

For decades, corporate and contract rates have represented almost 20 percent of occupied U.S. room nights and almost 30 percent of U.S. lodging industry revenue (Source: author). In recent years, starting around the time of the 2009 recession, the share of negotiated corporate demand (excluding "contract", which includes airline crew demand) has been declining. Specific data for corporate negotiated rate demand excluding contract rates are not available, but it is estimated that in 2019 the shares were approximately 15 percent of occupied U.S. room nights and 25 percent of U.S. lodging industry revenue (Source: author). More and more demand that had been subject to annual negotiated rates has been "open" – individual travelers being allowed to select accommodations that are not part of a negotiated rate contract, or stay in "sharing economy" accommodations, subject to certain travel policies.

There seem to be four primary approaches for rates negotiations for 2021:

1. Maintaining the rates negotiated a year ago with an understanding that there will be negotiations at a future date, such as in January.
2. Using 2020 negotiated rates as a base, and applying a discount, such as 10 to 25 percent.
3. A discount (typically 10 to 30 percent) applied to a defined rate, often the Best Available Rate (BAR) – this is often referred to as "dynamic pricing".
4. A hybrid model with a negotiated rate, typically lower than last year by 10 to 20 percent or the Best Available Rate, whichever is lower. There are concerns about this because, for example, these rates are difficult to audit for buyers, and for sellers property management systems are not designed for setting rates with these options.

Some buyers and sellers have started discussing that the contract period, which is almost always one year, might be longer. Some sellers see this as a way to negotiate higher rates now, and some buyers see this a way to negotiate lower rates now.

Sellers have been promoting the "dynamic pricing" model for approximately the past 10 years, and have met continued, but now less resistance because of the uncertainties this year about room rates for 2020. It seems that more buyers are considering this option.

Issues involved in negotiations include contractual commitment for health practices, for which compliance has been inconsistent to date across the hotel industry.

In the background is the knowledge on the part of many buyers that recent years have represented among the largest percent and dollar increases in corporate and contract rates in decades (of between 5.75 to 7.0 percent for 2016, 3.0 to 4.0 percent for 2017, and 2.5 to 3.5 percent for 2018 and 2019). (Source: author). As mentioned above, in all of these years, the outlook for average daily rates at the time of negotiations was for greater increases that were realized by the U.S. lodging industry, therefore many buyers believe they have been overpaying and this is the year to reset at lower room rates.

Another issue in the background is that many corporate travel managers and convention planners have been concerned about published "member rates" and non-refundable rates posted on brand web sites that have been lower than corporate, contract, or convention rates. Many travelers and attendees expect corporate, contract, or convention rates to be lower than rates available to the public. These published rates have been one initiative by brands to encourage direct booking.

Additionally, Airbnb, which until about three years ago had not generally been embraced by corporate travel managers and convention planners now has business relationships with American Express Business Travel, BCD Travel, Carlson Wagonlit Travel, many corporate travel managers, and others. Sharing economy brands are increasingly focused on attracting corporate demand. For example Airbnb has its Airbnb for Business and Business Travel Ready programs. Other sharing economy brands have been acquired by traditional lodging organizations, further establishing these concepts as appropriate alternatives to traditional lodging.

Anecdotally, it is being reported that "trading down" from full service hotels to Select Service and Limited Service hotels, with their lower room rates, that were generally unpopular with many business travelers and are now sometimes more favored because of perceived fewer interactions with hotel staff and other guests, and therefore possibly safer relative to COVID-19. It is also being reported that there is generally less enforcement of corporate travel policies and auditing of employee expense reports and hotel compliance with travel policy as an accommodation to business travelers that may have health concerns or for other reasons be reluctant to travel – allowing more freedom-of-choice is a way to respond to those concerns or reluctance.

There have been past periods when services and amenities were major negotiating points for corporate rates such as complimentary breakfasts (in hotels not offering complimentary breakfasts for all guests), and no charges for business center services, fitness facility use, and upgrades based on availability. Since many of these services are not available or reduced, these seem not to be part of negotiations.

Buyers had become especially alert to fees and surcharges over the past three to four years and seem to be seeking contract wording that prohibits charging any fee that is not related to a requested extra service. One of the fees that became common in 2015/2016 but proliferated in 2018 and 2019 for full service and luxury urban and many suburban hotels is a "property", "amenity", "service", "facility", "platform", or "house" fee or surcharge, the equivalent of a resort fee. Many hotels have suspended these fees because many or all services that justified these fees have been suspended. However, some hotels are proposing a health-related surcharge of $2.00 to $12.00 because of increased cleaning, cost of personal protective equipment, and operational practices such as assigning every other room and leaving rooms unoccupied for one night between occupancy by guests as health measures to reduce exposure to COVID-19.

Excluded from the above estimates are U.S. General Service Administration (GSA) per diem rates that become effective October 1. The GSA rates are for the 48 contiguous states, and apply to approximately 2,600 counties. There are 322 Non-Standard Areas with higher rates. The standard per diem rate starting October 1 is $96 – no change from the prior year, which many hotel executives see as positive at a time when room rates have decreased.

This report has included estimates the average U.S. percent change in corporate and contract rates, but this year the uncertainty makes this more challenging than for any other year. Based on the information available at this time, the estimate is for an average decrease for 2021 over 2020 corporate and contract rates is 20 to 25 percent.

Estimates included in this report are based on selected discussions with industry executives and corporate travel executives, analysis of industry financial data, press releases, and information available on hotel and brand websites.

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