U.S. Corporate Hotel Rate Negotiations for 2020 Forecast – After Many Years, Buyers are Gaining Some Balance of Power

TREND ANALYSIS REPORT

September 9, 2019

By Bjorn Hanson, Ph.D.

U.S. corporate and contract rate negotiation season is beginning, as it is every year between soon after Labor Day and continuing into December.

Almost 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) favored sellers because of increasing hotel occupancy, and forecasts for increases in average daily rate that for many of the years were higher than the average daily rate increases realized.

The sellers' position of strength preparing for 2020 negotiations is based on the highest occupancy percent for the U.S. since 1981: 2019 occupancy this year will likely be between 66.0 and 66.5 percent, compared with occupancy of 67.2 percent in 1981 (Source: Laventhol & Horwath – note: the year and occupancy have been cited without the source many times recently), and will remain about the same for 2020. Also, group demand has increased more than expected in 2019 which is favorable for hotels with meeting space.

The buyers' position of strength is based on slowing US hotel average daily room rate growth (last time occupancy was above 66 percent, average daily rate increased by 12.0 percent which was 9.5 percent over the rate of inflation – Sources: Laventhol & Horwath and STR). In 2019, average daily rate will likely not increase even at the rate of inflation based on recent performance reported by STR and the forecasts from STR, CBRE, and PwC. Also buyers have more choices supported by preferences of some travelers for alternative lodging, specifically "sharing economy" brands.

Also supporting the buyers' position is that average daily rate has increased by less than 3.0 percent for three consecutive years (Source: STR) and the consensus forecast (sources referenced above) for this years is for an increase of between 1.0 and 1.50 percent, and the declining trend of corporate negotiated rate demand as a share of total demand is making desirable accounts and groups even more valuable.

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 the shares are now approximately 15 percent of occupied U.S. room nights and 25 percent of U.S. lodging industry revenue, and are continuing to decline (Source: author). More and more demand that had been subject to annual negotiated rates is being permitted to be "open" – individual travelers may select accommodations that are not part of a negotiated rate contract, or stay in "sharing economy" accommodations, subject to certain travel policies and restrictions.

There are two primary models for corporate rates:

1. A negotiated fixed rate for the entire following calendar year.
2. A discount applied to a defined rate, often the Best Available Rate – this is often referred to as "dynamic pricing".

There has been an accelerating increase in the number of contracts based on the second model, but negotiated fixed rates remain the primary industry practice and benchmark. This report addresses both models, but the estimated percentage increases relate primarily to the negotiated fixed rate.

Recent years represent among the largest percent and dollar increases in corporate contract rates in decades of generally 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). For these years, the forecasts for following year average daily rate at the time of negotiations were for larger increases than realized. Therefore many buyers believe they "overpaid".

Overall average daily rate (ADR) for the US lodging industry is expected to increase only about 1.0 to 1.5 percent in 2020 (Sources reference above).

Factors that will affect negotiations this year for 2020 rates include:

1. As described above, negotiations for corporate rate increases in 2016 through 2019 were based on forecasts for larger rate increases for the following year than actually occurred, therefore many corporate travel managers and convention planners believe

they have been overpaying in recent years and will seek to be certain that is not the outcome of 2020 negotiations.

2. Some corporate travel managers and convention planners have been concerned about published “member rates” and non-refundable rates posted on brand web sites because they can be lower than corporate, contract, or convention rates, which many travelers and attendees expect to be lower than rates available to the public. These published rates are part of major and long term initiatives to respond to the power of and commissions earned by online travel agents (OTAs).

3. Airbnb, which had not generally been embraced by corporate travel managers and convention planners until around three years ago, now has business relationships with American Express Business Travel, BCD Travel, Carlson Wagonlit Travel, 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.
4. There are several approaches buyers are pursuing to limit increased travel costs, including for lodging, and to respond to preferences of many travelers:
   - concentrating hotel use into a smaller number of hotels to increase bargaining power because of higher volume at those hotels.
   - including more select service, and limited service hotels in addition to or in place of upper upscale hotels and full service and luxury hotels.
   - allowing travelers to select hotels that are not included in the portfolio of hotels with negotiated rates. This can be popular especially among younger travelers and can have the effect of lowering the overall average rate paid while increasing employee travel experience satisfaction.
   - enforcing corporate travel policies and auditing of employee expense reports and hotel compliance with travel policy.

It seems that many buyers are starting the negotiations suggesting increases of 1.5 to 2.0 percent – but this is likely to be lowered as recent occupancy performance and forecast updates are reported, and many sellers are starting negotiations suggesting increases of 3.0 to 5.0 percent. It is estimated that the most common typical outcomes will likely be 1.5 to 2.5 percent.

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), no charge for business center services, fitness facility use, and upgrades based on availability. These seem to be under consideration by some sellers to be offered for this year's negotiations to "trade" for higher room rates.

Buyers are more alert to fees and surcharges this year and are requiring that contract wording prohibit charging any fee that is not related to a requested extra service. Among the newest fee or surcharge that started in 2015/2016 but proliferated in 2018 and 2019, and has become common for full service and luxury urban and many suburban hotels is a "property", "amenity", "service", "facility" or "house" fee or surcharge, the equivalent of a resort fee.

Excluded from the above estimates are U.S. General Service Administration (GSA) per diem rates that become effective October 1, 2019. 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, an increase of $2.

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.

EDITORS: To interview Dr. Bjorn Hanson about this research or for more information, please contact him directly at bjornhansonllc@gmail.com.

About the Author

Bjorn Hanson, PhD, is an industry consultant and researcher. He founded the hospitality consulting practice at PricewaterhouseCoopers/Coopers & Lybrand and retired as global industry leader of hospitality and leisure with responsibility for all services to those industries for PricewaterhouseCoopers LLP before joining NYU. He was a full clinical professor and served as divisional dean of the New York University School of Professional Studies Tisch Center for Hospitality, Tourism and Sports Management. At NYU he also served as co-interim dean of the School of Continuing and Professional Studies. He is a director with Summit Hotel Properties (a NYSE REIT) and Executive Vice President of 795 Fifth Avenue Corporation. He holds CFE (Certified Fraud Examiner) and CRE (Counselor of Real Estate) professional designations.