

Many ways to buy

As hotel distribution diversifies, the choices for buyers become even more complicated. Not only are there countless properties from which to choose, there are also many ways of buying. The Lido Group's **Scott Mitchell** looks at the various procurement options.

SO, YOU'VE JUST BEEN placed in charge of procurement of hotels for your company's accommodation programme. The problem is, you're not an expert and wherever you turn, there seems to be a different "expert" giving you advice about how to get the best rates for your company.

So what is the most effective way to secure the best rates?

The truth is there is no single method that always fits perfectly for every organisation. Deciding on the best method of negotiation depends on a number of factors such as volume, location of properties, competitive environments and, as we have seen in the recent downturn in the accommodation industry, external market factors.

Direct negotiation

While negotiating directly with suppliers (and bypassing an accommodation manager or TMC) may present some attractive options for some companies, if you choose this method, make sure you have absolute control over your numbers and your people.

For large companies this "control" is usually provided, in the main, by their accommodation manager or TMC. If your company does not have a centralised travel division (where it is mandatory that all bookings are made by a central office), negotiating directly with suppliers is not recommended. Even if you believe that you know exactly what the rest of your colleagues are doing when they book accommodation, it is likely that you will suffer from extensive "information leak" and lack of compliance, meaning that your crucial accommodation data is not captured. A lack of accurate management reporting will almost certainly hit your company in the hip pocket.

Impartial advice from your accommodation manager or TMC will provide you with real cost comparisons; use the experience and knowledge of the professionals whenever you can.

Consortia rates

Companies with accommodation expenditures in the

US\$250,000-plus bracket can, of course, rely almost exclusively on their own negotiated rates. They will usually have extensive hotel programmes and acceptable rates in most destinations. These companies will use their TMC's consortia rates only for infrequently visited destinations and one-off trips.

Consortia rates are special deals negotiated between hotels and TMCs or accommodation intermediaries.



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General tips to remember when procuring accommodation:

- Whatever your chosen method, enforce and monitor compliance.
- Know what you've got to buy with; know your volumes for every destination and what you are prepared to pay.
- Consider the value-adds. If your travellers always take breakfast in the hotel, include a reduced breakfast price in the room rate.
- Negotiate your policy with the hotels on cancellations and no-shows. Nobody likes to pay for a room they didn't use, but the hotel also has a right to be compensated for the loss of business if your traveller doesn't show up.
- Consider locking in rates for more than one year. A longer tenure period means you need to tender less often. Also, locking in rates for two years in a strong market may just save you some money if prices rise in the second year of the tenure period.
- Be honest with your suppliers. Hotels are businesses just like yours; they need to make money to survive. Overstating your volume may work in the short-term but eventually your reputation can be damaged if you make a habit of it.

Companies with accommodation expenditures below US\$250,000 however, often get real value from the rates supplied to them by their accommodation manager or TMC. Of course, those companies with concentrated volumes in specific areas may still be able to negotiate client-specific rates, but the consortia rates often provide good value where volume is not high. The consortia rates are especially beneficial for companies with sporadic travel patterns where expenditure may be high, but room nights are spread out over a number of locations across the country and overseas.

Electronic tenders

With the uptake of e-procurement, opportunities have arisen for savvy buyers to garner the cost-saving benefits of tendering for their accommodation rates online. There are a few online accommodation tender systems on the market, with RFP Express probably the best known of these in this region.

The cost benefits of tendering online are undisputed. When used correctly, online platforms are quite simply the best way to secure your rates. However, like all technology-based procurement systems, it is not the system itself that will achieve lower rates. The technology simply provides a more cost-efficient platform for achieving a final result. The technology platform will only be as successful as

the information that is loaded into it in the first place (know what you've got to buy with!).

The real cost and time advantage of the online platform lies in the low cost of distributing requests and collating responses and the fact that you can reach all respondents with the click of a button. Companies should be encouraged to consider the benefits of an online procurement model, but it is vital that the system is, above all else, very user-friendly. If the process is not easy to navigate through, you may spend more time taking calls from confused suppliers than saving money.

Reverse auctions

A reverse auction works on similar principles to those used for the auction of, say, a house. However, the price discovery works in reverse: the idea is of course to get the lowest price, not the highest. The auction invites accommodation suppliers in a particular location to submit their rate for the piece of business, with counter-bids offered until the lowest bid has been received (this is usually done electronically).

While reverse auctions have had their fans among buyers, suppliers have quickly determined that the lack of transparency with the process meant that even if they had the lowest bid, they did not necessarily get the business. It also pitched suppliers of differing quality and standards against



Opposite: Raffles The Plaza, Singapore
Above: The Ritz-Carlton, Singapore

each other purely on the basis of rates. This, in turn, posed difficulties for the buyer; they may have favoured one particular property over another based on the quality and/or location, but if a lower bid is submitted by a competitor hotel, ethically the buyer should be obliged to take the lower offer. This of course did not always happen.

Conversely, selecting a property that has submitted the lowest rate, but whose standard of accommodation is not the best in its competitor set, may well result in a backlash from the buyer's travelling staff because the quality falls short of what is expected.

Distressed inventory

Sites such as Wotif.com, Quickbeds.com and lastminute.com have certainly taken off in recent times. Clever marketing and favourable external market factors provided a strong platform for the most popular sites to grab themselves a good share of the accommodation market. Many hotels that were hurting in the aftermath of September 11 and the general downturn in the industry went to the dotcoms with what was almost a "sell rooms at any cost" approach. The winner is, of course, the accommodation buyer.

There are some terrific rates to be secured on the dotcoms, especially for SMEs who don't have the volumes of their larger counterparts. However, buyers do need to be aware of some of the marketing catch-phrases. "50% off normal price" for example, usually means a 50% discount off the rack rate of the hotel, which is only ever offered in periods of extremely high demand anyway.

As hotels attempt to slowly edge their yields upwards, it will be wise of the buyer to consider whether they really are getting the best rate before they buy, especially when all factors are taken into consideration. The buyer should consider the degree of flexibility of the booking site (for example, what happens if you need to cancel or amend) and the "true" rate of the hotel before making a decision.

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