



Expert panel (from left):
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Simmons.

In the past couple of years we have witnessed a shift in the hotel industry from fixed annualised rates to more fluid dynamic rates, mainly being driven by the large global hotel chains including Hilton, Inter-Continental Hotels Group, Marriott and Accor. This change has been made in direct response to the transparency of hotel rates on the Internet and the desire for hotels to keep their pricing consistent across all booking channels. A number of chains eliminated fixed rack and consortia rates at the start of 2004 and replaced these with a "best rate of the day" dynamic rate instead.

Hotels are attracted to dynamic pricing as it allows them to better respond to external conditions in the marketplace as well as improve their internal yield management practices. Their argument for implementing dynamic pricing across the board is that all quoted rates will more accurately reflect any current market conditions and that offering major clients a fixed discount percentage off a dynamic daily rate is a better way of ensuring a fair price for all. On the other hand, corporate buyers will be reluctant to give up the perceived safety of the fixed rates that they have historically been contracted; their two biggest objections being the perception that they will be disadvantaged in terms of rates and that they will not be able to budget for their accommodation expenditure effectively.

Nevertheless, the large hotel chains are now intent on moving an even greater portion of their inventory onto dynamic pricing models. As a result, they are starting to test the waters in terms of transferring more of their fixed corporate rates (including their government and military rates) onto dynamic rates for 2006. Furthermore, there appears to be an increasing reluctance for hotels to contract their room rates on last room availability (LRA).

I have not as yet witnessed any hotels turning away long-term fixed rate contracts. Although the market has definitely turned in the hoteliers' favour, we are still not at a stage where the hotels are prepared to risk losing any major clients. For now, I believe organisations that are able to commit a large volume of room nights will still be able to negotiate a fixed corporate rate for 2006. However, they may find that the fixed contracted rates will no longer be made on a last room availability basis.

What is clear is that hotels are looking much more closely at what contracts they are putting in place and analysing the overall value of the contracts to the hotel. The hotels are more likely to curb the contracting of smaller accounts onto fixed rate contracts and to move these onto a dynamic consortia rate or similar. In addition, they will be periodically reviewing any contracts on fixed rates to ensure that the contracted level of room nights is actually materialising.

Whether or not dynamic pricing receives a positive reaction from the corporate buyers in their 2006 rate negotiations remains to be seen. However, what does seem to be certain is that due to continued strong demand for business travel coupled with a limited growth in the supply of new hotels in the key Australian cities, we will have a tougher rate negotiation process in 2006 as well as overall increases in rates for next year. Dynamic pricing is undeniably here to stay; it just may take a few more years for the hotel industry to re-educate the market and gain acceptance for this new purchasing behaviour.

Pierre Joseph,
supply manager, the Lido Group