

Midmarket Hit Hard By Hotel Hikes, But Holds On Car Rental

By David Eisen & Michael B. Baker

Small and midmarket travel buyers formulating their hotel programs are feeling the continued sting of increased rates levied upon them during corporate rate negotiations by hotel companies, which are leveraging increased travel demand, high occupancy rates and stagnant supply growth to further entrench their powerful bargaining position. On the other

hand, despite rising car rental rates, midmarket buyers have fended off most of the increases.

Though analysts expect both hotel and rental car rates to continue to increase, midmarket buyers likely will feel the hotel industry's sting to be far sharper.

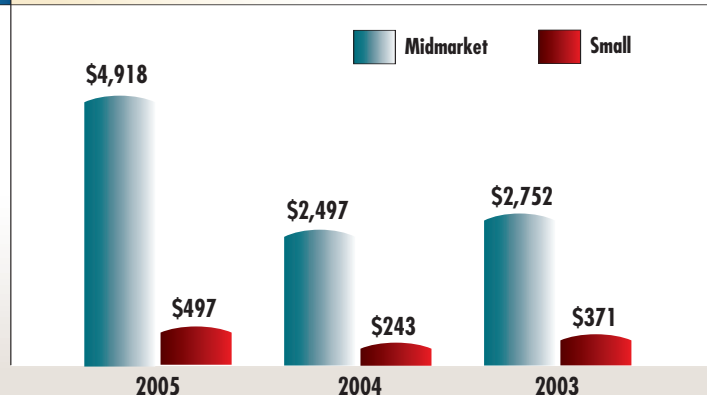
PricewaterhouseCoopers this month said buyers should expect corporate rate increases for 2007 to be similar to what they saw in 2006—about 5.25 percent. "It's been tough for the past two years and it's only going to get more difficult," said Bjorn Hanson, leader of PwC's hospitality and leisure practice. While most buyers accepted that increase last year, Hanson said buyers would be less inclined to accept another bump higher than 5 percent. However, he warned that some hoteliers believed last year's rate increase was undervalued.

Maria Chevalier, vice president of hotel relations at BCD Travel's Travel Procurement Solutions division, acknowledged that midmarket buyers already are at a disadvantage, even moreso in the current market. "Because they have less purchasing power, they certainly are struggling," said Chevalier. "It's hard because the threshold for the number of

room nights needed has risen and they aren't reaching it. They're not close to using a chain discount, so they're going to have to look at concentrated area types of discounts and buys."

While increased rates are the nexus of buyer frustration, constricted availability—especially in gateway cities—is causing further angst. "Imagine how much the big companies are struggling with availability. Then, imagine the midmarket," said Chevalier. "They don't have the ability to do bulk buys like a large cor-

AVERAGE GROSS U.S. BOOKED HOTEL VOLUME SOARS (\$000)



PERCENTAGE OF TRANSACTIONS THAT COMPLIED WITH COMPANY PREFERRED VENDORS, 2005

	Mid	Small	CT100
Airline	69%	66%	85%
Car rental	80%	66%	94%
Corporate card	71%	62%	90%
Hotel	65%	63%	68%
Booking channel (agency/tool)	78%	60%	90%
Expense tool	71%	68%	97%

poration can. It's even more challenging for them on availability and rate."

The pain small and midmarket buyers are feeling is evident in *BTN's* findings. The midmarket's average U.S. booked hotel spend, which stood at close to \$2.5 million in 2004, doubled to just under \$5 million in 2005, while average booked nights decreased, which is staggering considering the increase from 2003 to 2004 in booked volume was \$255,000.

The percentage of midmarket companies receiving a discount off domestic room nights has dwindled since 2003, when it stood at 65 percent. Now, just over half of them are receiving a discount.

The arduous task of implementing a hotel program has been complicated by increased rates, less availability and fewer discounts. To assail these forces, travel buyers have had to be more creative in devising their programs. Some buyers

have excised certain properties from their programs to steer more volume to a particular hotel in the hopes of securing better rates.

"We've done some consolidation within cities where we had a fair number of room nights," said Tom McCabe, director of global travel and meetings services for Wellesley, Mass.-based PerkinElmer, a developer of scientific technology. "When we did our 2006 request for proposals, if we had three or four hotels in the city, we might drop one out to provide additional volume, and that has provided us with decent stability on rates."

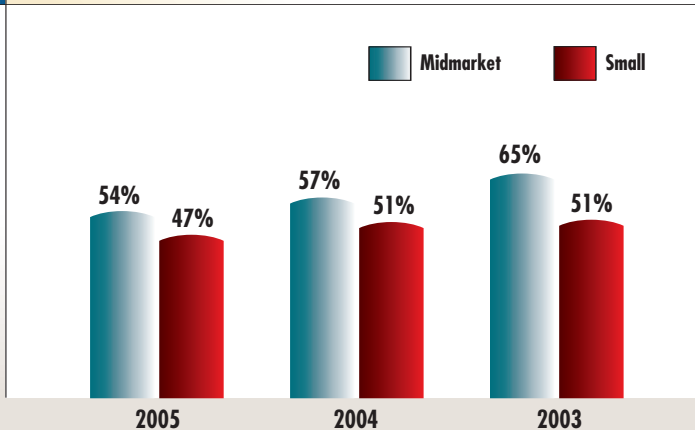
McCabe's strategy was touted by BCD's Chevalier as an astute way to keep rising costs at bay. "You try to reduce the number of hotels so that you can have more purchasing power in the ones that you do," said Chevalier. "Instead of going to 10 hotels with 100 room nights, why not go to five with 200 room nights?"

McCabe said that his strong, long-standing relationships with hoteliers are helping to weather the storm brought by increased rates. "We're not experiencing a huge impact in terms of pricing," McCabe said. His hotel mix primarily consists of midprice properties, but does include a few full-service hotels where volume is high and rates satisfactory. McCabe recently expanded his program globally and employs an independent consultant who works exclusively for the company to help facilitate the travel program. McCabe also uses RFP Express to facilitate the RFP process.

Another approach that has produced relative success for buyers is trading down from full-service properties to mid-price hotels. "Hotels are costing a lot more," said Bill Tech, president and CEO of Travel and Transport, noting a marked acceleration of midmarket companies trading down to deflate costs.

For Sam Cipolla, director of sales and a small-market buyer at Houston-based Safetech, a purchaser of surplus and used equipment, securing satisfactory rates has been a struggle, especially since the company's travel isn't concentrated in one particular area, which makes

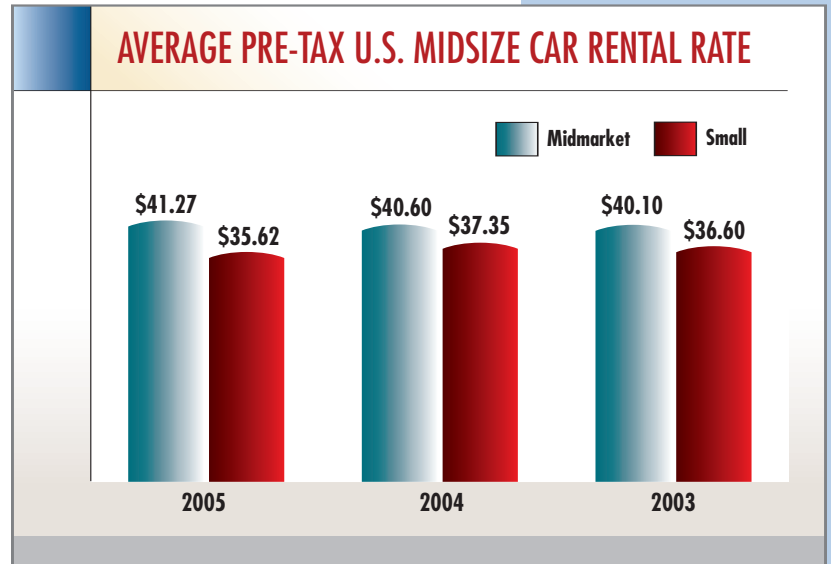
PERCENTAGE OF DOMESTIC ROOM NIGHTS FOR WHICH THERE WAS A DISCOUNT



it tough to achieve discounted rates. One method that Cipolla has employed has been to piggyback off a customer and use their negotiated rate in the city where they are doing business. "It is something new we are doing, which we hadn't used before," Cipolla said. "There are cities we are going into where we don't have a corporate negotiated rate, but our customer does. We try to be creative to keep rates down."

Meanwhile, daily car rental rates were up almost 70 cents to \$41.27 over the previous year, according to midmarket respondents. That, however, is a modest increase compared with broader industry numbers. Neil Abrams, president of Purchase, N.Y.-based Abrams Consulting Group, said he had indexed a year-over-year increase of about \$6. For the leisure market and unmanaged business travel, increases in car rental rates have stuck, and car rental companies have reason to gain traction in their corporate negotiations, Abrams said. Struggling auto manufacturers have raised fleet costs for the rental companies, so despite the fact that revenues generally are up for the major rental suppliers, profit margins are still tight in the industry.

"Holding costs are up substantially, and the demand is robust," Abrams said. "That is basically the justification the



rental companies need."

Midmarket companies are reporting a slightly tougher time with their car rental negotiations. While 29 percent of respondents said car rental vendors are more receptive to negotiations, about the same percentage as in 2005, more than one-quarter said they are less receptive. Last year, only 16 percent perceived vendors as less willing to negotiate.

Even so, shrewd midmarket companies have found ways to be strong in negotiations even if they don't have the rental volume of large corporate players, said Carol Ann Salcito, president of Norwalk, Conn.-based Management Alternatives. One strategy is to cherry-pick a rental supplier that might not have gained a significant corporate presence in an area.

"The company's total volume may be \$200,000, but that may put them into the top five companies doing business in that location, or in a city where the rental car company really could use their volume," Salcito said.

Corporate customers are becoming less willing to simply re-sign with the same supplier each time an agreement is up for renewal, Abrams said. Some companies that were not major players in the corporate rental business, such as Enterprise Rent-A-Car and the Dollar Thrifty Automotive Group, are courting midmarket clients, and the pricing environment should make those clients more willing to consider those options, he said. ■

