

Negotiating Contracts and Beyond



The financial downturn highlights myriad issues on contracts that hotels sign on the dotted line. The purpose of contracting accounts is to create a win-win situation for both parties involved. Technology can play an important role in balancing access to inventory, price and a long-term outlook to growing the share from the most profitable accounts of the hotel.

Sivaprasad Gangadharan

For those operating in the Indian hotel sector, any financial downturn or recession is a frightening experience. Hoteliers seek to safeguard their future with long-term contracts designed to lock in guaranteed income and help weather the storm. However, in a bid to make the contract as attractive as possible to similarly beleaguered businesses, hoteliers can find themselves drastically underpricing their offering before quickly realising that a poorly negotiated deal will take the shine off the contract the moment the going gets good. In fact, if we delve deeper, there is more to negotiating contracts than just smooth talking.

The lesson to be learnt is that while a recession is felt by industry and individuals alike, it is essential that during periods of economic crisis hoteliers delve deeper to discover the reality of their situation before doing anything reckless. The factors affecting each element of a hotel operator's offering are so dynamic and diverse that a 'one size fits all' approach simply will not cut it and while a high volume of long-term contracts may prove the right way to go at one location, it may be more financially sound to reduce them at others.

Equally, it is critical that when entering into a contract, the terms are set with rates and conditions which are beneficial to all parties. Ultimately, hotels are preparing

for a period of anywhere between 12 and 18 months of trading, so if a hotel doesn't get it right now, it may never have the chance to buy back time and make amends.

Keeping A Watchful Eye

A thorough analysis of the macroeconomic environment should always be a priority for any smart hotel operator in India. This effectively means understanding anything outside of a hotel's immediate control. This can encompass anticipated levels of demand based upon expected tourism rates and trends in corporate travel, along with shifts in client demand or changes to the competition landscape. Keeping a watchful eye on competition in the industry will inform hoteliers on how comparable their businesses are and therefore, how aggressive they can afford to be with their pricing. Equally, it can uncover a need to move with the times and make some vital adjustments to products and services in order to remain in the game.

Economic trends will usually have a direct influence on the call for demand, as well as impacting on any significant alterations in what a client comes to expect from an hotelier. By remaining plugged in to what's happening in the world at large, a hotel operator can see two steps ahead of anyone else, preferably before the competition realises the score and calculates its next move.

Inward reflection is equally essential when reviewing whether keeping

an account on will be worthwhile. Determining the overall revenue contribution achieved during the most recent contracting period and measuring this against the revenue that has been displaced as a result of taking on the account, is absolutely essential in establishing its value.

A good method of measurement for assessing this is to total the revenue from room nights booked during days when hotel occupancy exceeded 95 per cent and to estimate a percentage of this amount as displacing other revenues. This process is easily achievable with the application of a revenue management system. The alternative is to use manual evaluation or sort through data feeds from the property management system. If the hotelier has data and analytical capabilities, profit contribution per account should also be evaluated. Matching revenue streams against overall costs to establish a net profit provides an accurate overview and insight into an account's worth.

Critical to the negotiation process is a full understanding of a client. Matching the estimated revenues from 2011 to next year's forecast will supply expected figures for demand which can then be measured against overall demand for the hotel. Using figures you already have at your fingertips in a more analytical way will provide you with priceless intelligence that will help you make a more informed decision about which clients are your most profitable.

From Static To Dynamic Pricing

With a rise in demand comes the necessity for the account with which a hotel holds a contract to guarantee some access to the hotel's room inventory. This usually takes the form of an insistence that last room availability is included as part of the contract. This level of access should come at an additional cost to the client. A considered analysis of the amount of revenue the account displaced (as already outlined) will produce an average amount per room per night, which can then be used as the premium charged for the privilege of last room availability.

Choosing the most appropriate pricing structure will be the ultimate determinant in whether a negotiation strategy will sink or swim. In the past, fixed rate pricing has been the mainstay of the hotels industry, transparent pricing has changed the methods of negotiation and this has led to a shift away from static to more dynamic pricing. While this has many advantages for both hotels (pricing aligned with demand) and clients (easier RFP process, Last Room availability is no longer an issue and pricing changes quickly with demand), there has been push-back from many companies, especially as dynamic pricing makes it difficult to forecast travel budgets.

There are a range of different factors that need to be taken into consideration when determining how to best implement dynamic pricing strategies. The positioning of key products to key market segments

is a vital aspect of dynamic pricing. While gaining an understanding of the competition, both existing rival and future competitors and what they are offering consumers, is also necessary to gain a strong competitive advantage. Dynamic pricing is not without its challenges, as one could expect with such a complex programme. One of the most inherent and common challenges with the installation of dynamic pricing is a lack of clarity and consistency through companies at different times.

The InterContinental Hotels Group expects that almost a quarter of its corporate clients (including those in India) will use "some form of dynamic pricing" in 2012. As a rule, hoteliers and buyers are now finding the middle ground, adopting hybrid programmes that utilise both dynamically priced and fixed priced rate systems. Essentially, the more flexible hoteliers are able to be, the more likely it is that they are going to succeed.

The purpose of contracting accounts is to create a win-win situation, where both the hotel and the client are clearly benefiting. For Indian hoteliers, corporate accounts are an important segment of business that no hotelier can risk losing. However, the right balance between access to inventory, price and a long-term outlook to growing the share from the most profitable accounts, will be crucial in ensuring long-term success.

(The writer is Regional Director Subcontinent Sales for IDEaS)

