

18 Hotel Procurement Practices

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There has been much discussion around the best practices in hotel procurement for international congresses. Clearly there is significant value for the delegate to be able to book accommodation whilst completing the online registration. For the association, the inclusion of the housing component in the overall offering assures better control. So why is it so hard to get it right?

Consider the macro environment

Like all negotiations, understanding the other party's position will help considerably. I was always taught that the art of negotiation is what you can give away at the lowest cost to yourself and has the highest perceived value to your counterpart. Let's bear this in mind given that the starting point of both parties is at either end of the spectrum: associations want maximum flexibility in the contractual relationship in order to mitigate financial risk, whereas the hotel wants signed and sealed revenue to fill its order books. So how do we arrive at the win-win position?

In contrast to the corporate event approach, procurement practices for international congresses engender a complex macro environmental dimension, which can significantly impact the financial success of the congress and the satisfaction of the delegate.

It is important to consider occupancy rates in the city at the time of the proposed congress. Based on a recent study conducted by Pacific World in 18 cities in Europe, Middle East and Africa, this can vary from 54-82% in four star and five star properties depending on the city chosen. If hotels adopt a dynamic pricing strategy to sell their "distressed" inventory (spare rooms on any particular night), then there is significant danger that rates promoted through online distribution channels can seriously "undercut" the official congress rate. The consequences are obvious! Delegates book through other distribution channels, feel cheated by the congress organiser and the financial success of the congress is potentially compromised.

Another surprising result from the study is how significantly hotel rates can fluctuate based on the city chosen. Assuming a 70-30% split of four and five star hotels to accommodate 1,500 delegates attending a fictitious medical conference in May or September booked 14 weeks out in the 18 cities evaluated, average rates fluctuated from €60 to nearly €270 per night depending on the location. Hence historical accommodation rates should not be considered as the benchmark for future congresses. The current economic climate clearly is complicating the matter further.

What are the hotel's objectives?

Similar to corporate event procurement practices, transparency and flexibility will help achieve the desired results. A hotel's revenue is made up from a complex stream of market generators:

corporate travel, meeting groups, airline crews, free and independent travellers (both online/offline), leisure groups, sports and entertainment contracts as well as wedding parties and walk-ins (paying rack rates) to name but a few.

The hotel's general manager is focused on key performance indicators which are based on Rev PAR (Revenue Per Available Room) as well as miscellaneous revenue streams for room hire, food and beverage spend; and the less transparent incidental or discretionary spend by individual guests.

All of these revenue streams are evaluated in terms of risk versus reward. As one senior vice president for sales and marketing of a global hotel chain put it: "it's not what you book, it's what you move!" The most lucrative piece of business on paper might not actually materialise. I do question how much time actually goes into evaluating all of these aspects before a destination and more importantly a date is chosen for the congress.

Do your homework

Understanding the displacement factor from a hotel's point of view, you might want to consider if you can broaden your enquiry to encompass function space on property for a symposium, break-out session, exhibition or social event as being a way to gain greater flexibility on bedroom contractual conditions. The overall value of the business to the hotel is clearly increasing (room hire fees, associated food and beverage charges, more incidental expenses as delegates are spending their money in the hotel with drinks in the bar etc. rather than at an off-property location).

In conclusion, go armed with historical "consumption" and present figures on revenue opportunity and likelihood of business materialisation, potentially offer additional revenue to the hotel with repeat business either for future congresses or subsidiary events (this might be as simple as encouraging pre or post-convention stays). Now your hotel partner is going to look at your congress opportunity in a much more positive light. Engage your local PCO or DMC early in the process and use the convention bureau to help you do your homework on occupancy rates. Finally, ensure that you use the competition in the city to achieve alignment on attrition, cancellation and payment terms.

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This article was authored by Pacific World's Regional Director EMEA, Shaun Casey.

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