

DYNAMIC BY NAME ...

It is called dynamic and flexible pricing, and it is changing the way Travel Management Companies, and their clients, are doing business.

When it comes to establishing accommodation budgets, Travel Management Companies and their clients have fallen victim to nature's oldest yet most infallible law: supply and demand.

Confidence in the world economy through the opening of 2008 fed the surge in global travel spends, and a shortage of room supply in high-volume cities from New York to Singapore, Amsterdam to Hong Kong, Istanbul to Beijing.

Indeed, in the Asia Pacific region the average room rate (ARR) is this year expected to climb a further 8-10 per cent. In Australia the impact is most substantial in Western Australia and Queensland.

The shift from static to dynamic pricing is best explained as the introduction of set discounts off a floating base rate (say 20 per cent off the corporate rate), or the provision of a rate "range". The system replaces the "locked in" discounts hotels would traditionally negotiate with high volume clients, and allows the hotel groups to capitalise on bullish trading conditions and tightening supply.

Buoyant corporate room demand has played into the hotel chains' hands. As TMCs would know all too well, these chains hold the whip hand in setting terms, including the implementation of minimum stay restrictions, early check out fees and even contracts being cancelled for non-performance.

As room rates have spiralled (see table) – especially in the Asia Pacific market – the capacity to negotiate rates has fallen substantially. In 2005, 64 per cent of clients enjoyed the budget certainty of locked in rates. At some point in 2008, that figure will fall below 50 per cent.

Increase in ARR by region, 2003-08	
<i>Region</i>	<i>% Increase</i>
Asia Pacific	47
Europe	32
United Kingdom	24
Americas	17

While on the surface it may appeal, dynamic pricing strips away budget certainty. Transparent pricing (largely due to the internet) allows vigilant clients to see if their corporate rate can be matched or bettered on the spot, yet it becomes a time-consuming activity at best, and a confusing, self-defeating blow to productivity at worst.

Corporate resistance to dynamic and flexible pricing remains strong. Some clients are considering rental accommodation, for instance, while many are staying with their negotiated rates, enjoying the room and service security of the "known", rather than the "unknown".

Limited numbers are opting for the hotel chains' "buy-in" option, which allows static pricing for high volume destinations and the flexible model at second-tier cities. Industry observers watch with interest as this model plays out.

Others are taking a longer view. Like most economic models, we should consider this as part of a cycle. Global hotel pricing's last peak was 2001, shortly before the events of September 11. ARR had increased for the best part of the decade since the 1991 Gulf War, but the downturn that followed was abrupt; with the SARS epidemic of 2003 further curtailing travel, it took three full years for room rates to experience an upward turn.

Flexible pricing became commonplace for leisure travellers in 2004. The following year, it crept into the corporate travel market, and 2008 sees ARR's at a four-year high on the back of this latest surge.

Yet the curve signals a subtle shift back to a buyers' market – the huge rate increases of 2006 did not always flow into 2007. Hong Kong, for example, experienced a 20 per cent ARR hike in '06; it was just one per cent in '07. (Singapore's year-on-year increase slipped from 25 to 10 per cent).

The future? Increasing supply will further bite into the curve, as will a predicted decrease in travel spend in some sectors (eg: financial institutions). In the meantime, for the best part of 2008 at least, travel buyers will continue to face a hotel seller's market.

