CASE STUDY

Medical Technology Firm

Setting rate targets drives significant hotel program savings

A global hotel client leverages a key principle of behavioral economics to help reign in hotel spend.

Challenge

One of our global clients managed their hotel program traditionally through the use of static negotiated rates. They also used rate caps to manage spend in all negotiated markets. As is common, the rate caps were set to the value of the highest negotiated rate in each market. However, when we examine a key concept from behavioral economics called "anchoring" we can see how this methodology for setting and using rate caps actually encourages travelers to book higher rates.

The "anchoring" concept is fairly simple. In negotiations or any decisions involving numbers, the biggest predictor of the final value agreed to is the first value mentioned in the negotiation or seen in the decision-making process. If we apply this concept to the client's rate caps, the client was anchoring travelers to rates that were high and not competitive - driving higher booked rates. We analyzed the client's booking trends with respect to the rate caps and the market rate (the weighted average standard rate of all properties they utilized in each market) throughout their program.

From this analysis we took away two key findings: In their primary markets, where they had a lot of leverage to negotiate competitive rates, their rate caps were set fairly competitive – well below their market rate.

At a glance:

Challenge:

Our client's rate caps in secondary markets were set higher than standard rates available to the general public. Because rate caps serve as decision-making anchors, this was driving high average booked rates.

Approach:

Leverage the decision-making psychology behind anchoring and re-set the rate caps to at least 10% off standard rates. Instead of "caps" these values are now "targets" in that they represent an acceptable nightly rate for a hotel.

Results:

- Rate targets implemented across all primary and secondary markets and set to 10% less than standard rates available to the general public
- Elimination of sourcing in secondary markets (55% program size reduction)
- Savings of 4.9% YOY in new non-program markets
- Savings of 2% in top tier program markets

But in their secondary markets, the rate caps were much higher than their market rate. Because they didn't have as much leverage in these markets, they weren't able to keep all negotiated rates below their market rate.

Approach

By utilizing rate caps based on those noncompetitive negotiated rates, they were anchoring their travelers to higher rates in their secondary markets, driving their overall booked rates higher. To address this, we made their market rates a key component of the analysis. We calculate market rates for our clients every month. We first obtain the standard rate the general public pays at tens of thousands of hotels a month.

We gave travelers a new anchor for booking in each market – a rate target.

And we set the rate target at 10% less than the market rate, which ensured the travelers were being directed to book rates at least 10% less than the rates available to the general public.

Then we take those rates and, based on our clients' room nights at each of their hotels, we calculate their weighted average standard rate – or their market rate – in that market. Because the market rate is the standard weighted average rate of the properties a client uses in a market, it's an accurate representation of what their travelers would pay if no discounted rate options were available.

For our client, we compared each rate cap to their market rate. We then applied a 10% discount to the market rate and made that our minimum goal – in other words, we wanted our client to achieve at least 10% or more off standard rates available to the general public. In situations where the rate cap was not at least 10% less than the market rate, we simply moved the rate cap down to 10% off the market rate. Finally, we began using the term "rate target" instead of "rate cap" to clearly reflect the intent of the value to which we would be anchoring the travelers.

Results

First, because the rate targets revealed so many non-competitive preferred rates, the client dramatically reduced the size of their program, cutting out preferred rates anywhere they were higher than the rate target. This cut the number of program markets by more than half. In the non-program markets, where they removed all preferred rates, we saw savings of 4.9% YOY. And in program markets, where they kept preferred rates because they had enough leverage for them to be competitive, savings were 2% YOY.

The client was able to achieve significant YOY savings and reduce their program markets by 55% - proving that rate targets serve two valuable purposes: they provide an anchor to control spend, and they allow you to cut back on the number of properties sourced – saving time and money each year.

Within transient hotel category management, driving savings with rate targets instead of sourcing is the only proven strategy thus far that simplifies the annual hotel RFP. Stop relying on the actions of hundreds of individual hotels to drive your savings. Instead, source only where you have prime leverage and take back the control by implementing rate targets in all your markets.

Stay by BCD Travel drives greater savings through spend management while also increasing program adoption and satisfaction. With our multifaceted strategies, your second largest spend category can become your largest new source of savings.

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