

Last Room Availability Rates

The difference between perceived and actual value

White Paper

Last Room Availability Rates

When companies have negotiated Last Room Availability (LRA) rates, which are often higher than Non Last Room Availability (NLRA) rates, they have the right to buy a room at their contracted terms and prices even if the hotel only has one room left in that category.

For companies without a negotiated LRA clause, and only Non Last Room Available rates, it's at the discretion of the hotel as to what price they sell the last rooms.

CWT Solutions Group, the consulting division of Carlson Wagonlit Travel, has in their research found a 5% gap between the perceived and actual value of Last Room Availability rates. For a company that spends US\$ 20 million with their preferred hotels, that could amount to US\$ 1 million.

The key findings of the research, which analyzed 7,300 2016 hotel bookings across 97 countries, revealed that:

- There is a 5% gap between perceived and actual value of LRAs. This can translate into millions lost each year for corporations on misperception of the value of LRAs.
- 44% of hotels charge a premium for including an LRA clause.
- There is a 12% chance that the traveler will not be able to stay at their contracted rate – even with an LRA rate.
- Multiple hotels in a target market negates the need for an LRA clause.
- The perceived value differs considerably between premium and economy hotels and between cities.

CWT Solutions Group recommends:

- Quantifying actual LRA value in top spend cities to support hotel negotiations and selections.
- Knowing hotel occupancy levels in key cities and negotiating a mix of LRA and NLRA rates especially in low occupancy cities.
- Track, monitor and action rate availability information and understand the percentage of hotel inventory that is included at your negotiated rate.





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Last Room Availability (LRA) is a negotiated hotel rate clause that has been around for a long time. In practice, it means that as long as a hotel has a room for sale, then anyone with an LRA contract has the right to buy it at their contracted terms and prices. A non-LRA (NLRA) rate, is available at the discretion of the hotel and the rate can increase as rooms are filled.

LRA has been considered best practice when negotiating hotel rates and most travel programs around the world have them in their contracts. Until now, they have largely been unchallenged.

CWT Solutions Group, the dedicated consulting division of Carlson Wagonlit Travel, has researched different approaches travel managers can use to negotiate hotel rates and in particular, how they should approach LRA.

This paper looks at whether the perception of LRA value lives up to reality, given that 44% of hotels that offer LRA do so at a premium to NLRA. It also gets a step closer to quantifying the real value of LRA compared to non-LRA including regional variations.

Importantly, *CWT Solutions Group* has drawn up questions travel managers should ask as they prepare for their hotel negotiations.

Last room availability: how does perceived value compare to reality?

Last Room Availability (LRA) has, since the 1980s, been travel managers' gold standard for a preferred hotel agreement. But is it worth the premium? *CWT Solutions Group* decided to take a deep dive into the data, particularly in the light of today's advanced revenue management techniques and the sustained record-setting occupancy levels. The answer may surprise travel managers and hotels.



Why do we have LRAs?

Imagine this scenario; it is quite common although travelers may have little insight into what is occurring behind the scenes. A corporation's hotel agreement stipulates the use of standard rooms but for a particular booking there are very few standard rooms available. Perhaps the traveler is making a last minute booking. But they have an LRA clause, so the traveler can, for the negotiated price of a standard room, book any available room in a similar room category. Without the LRA clause, either it costs more or the traveler will have to find a different hotel, which also costs more, in time. That's why LRA has been considered the gold standard with over 90% of *CWT Solutions Group* clients' 2017 preferred hotel agreements including LRA.

There is an alternative: not having an LRA clause and paying more for a room when this situation arises.

It is important to note that 44% of hotels charge a premium for including an LRA clause. At what point does the premium negate the added security of the clause?

Until now, there has been little to no research quantifying the value of the LRA clause against a NLRA contracted rate.



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So, CWT Solutions Group decided to do the research. It sounds complicated, because it is, but we've done our best to simplify it.

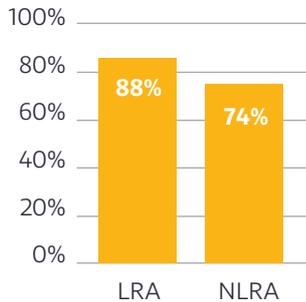
Our research

First, we looked at the availability of NLRA and LRA contracted rates. The data in Table 1, from 2016, represents over 2,000 separate hotels in 84 different countries.

At first glance, LRA rates work as intended: they are available 14% more often than NLRA rates. So assuming a hotel offers LRA at the same rate as NLRA during negotiations, it is worth including in the agreement.

But it is not that simple. There remains a 12% chance that even with an LRA rate, the traveler won't be able to stay at their contracted rate due to room availability constraints. That needs to be compared against a 26% chance that they will not receive the NLRA contracted rate.

Table 1: Rate availability by rate type



What does that actually mean? It means that if a premium was paid for LRA and the paid rate vs. negotiated rate is compared, companies may end up spending more on the premium than they would save from that 14% difference.

There are two key measurements we utilize to quantify the value of LRA versus NLRA.

The first is perceived LRA premium, which is the premium travel managers are willing to pay for having an LRA clause. For example, if a hotel offers a US\$ 100 NLRA and US\$ 110 LRA rate and the LRA rate is accepted, US\$ 10 is the perceived LRA premium.

The second is break-even LRA premium, which is the difference between the contracted and paid rate for LRA and NLRA. For example, if the LRA accepted rate is US\$ 100 and the paid rate is US\$ 105, the difference is US\$ 5 or 5%. Similarly, if the NLRA accepted rate is US\$ 100 and the paid rate is US\$ 110, the difference is US\$ 10 or 10%.

There is a 12% chance that even with an LRA rate the traveler won't be able stay at their contracted rate.

If you compare both, the break-even LRA premium is US\$ 5 or 5%. The first is subjective; the second objective. Table 2 shows the results.

On average, buyers were willing to pay 8% more for LRA than NLRA; that was the perceived value. The difference was fairly consistent across hotel tiers, though it seems buyers were willing to pay a slightly higher premium for LRA for higher tier properties.

However, when we looked at the objective numbers – the break-even LRA premium – the actual difference managers should have paid was 3%. The only tier where perceived LRA value was less than break-even value was at economy properties with the gap widening at higher tier properties.

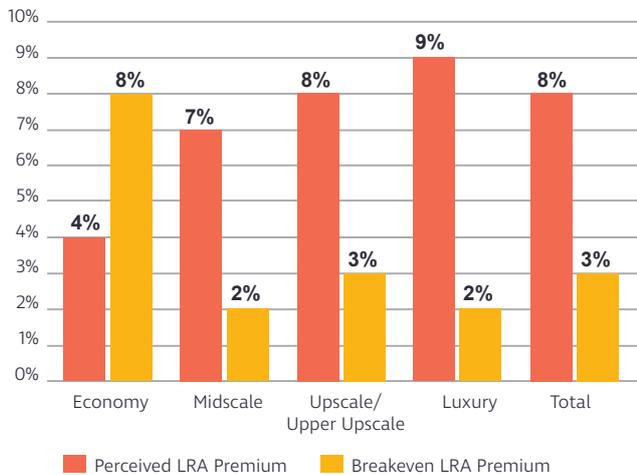




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Table 2: Perceived vs breakeven LRA premium by hotel classification



The only tier where the perceived LRA value was less than the true value was at economy properties.

Have buyers missed a trick?

To get closer to the answer, we looked into regional differences. As Table 3 shows, on average the overall booked rates are US\$ 6 higher for LRA and US\$ 13 higher for negotiated rates. LRA rates might cost more on average but what do travelers actually have to pay if they miss their contract rate?

To answer this question, we analyzed CWT 2016 booking data covering 7,300 hotels in 97 countries comparing what travelers actually paid versus the negotiated rates. We then compared the difference in rates to the LRA premium paid and separated rates by LRA or NLRA. The final step was examining the percentage difference between the booked and actual data. That gave us what we were looking for: the real percentage difference between NLRA and LRA rates.

Table 3: The difference between booked rates and NLR rates by region (US\$)

Tab 1 Style Region	NLRA Avg. Negotiated Rate	NLRA Avg. Booked Rate	NLRA % Diff	LRA Avg. Negotiated Rate	LRA Avg. Booked Rate %	LRA Diff
EUROPE	\$158	\$183	16%	\$171	\$189	11%
APAC	\$164	\$181	10%	\$157	\$170	8%
NORAM	\$150	\$166	11%	\$148	\$159	7%
MIDDLE EAST/AFR.	\$233	\$252	8%	\$221	\$235	6%
SOUTH/LAT AM	\$151	\$163	8%	\$118	\$126	7%
Global	\$158	\$183	16%	\$171	\$189	11%

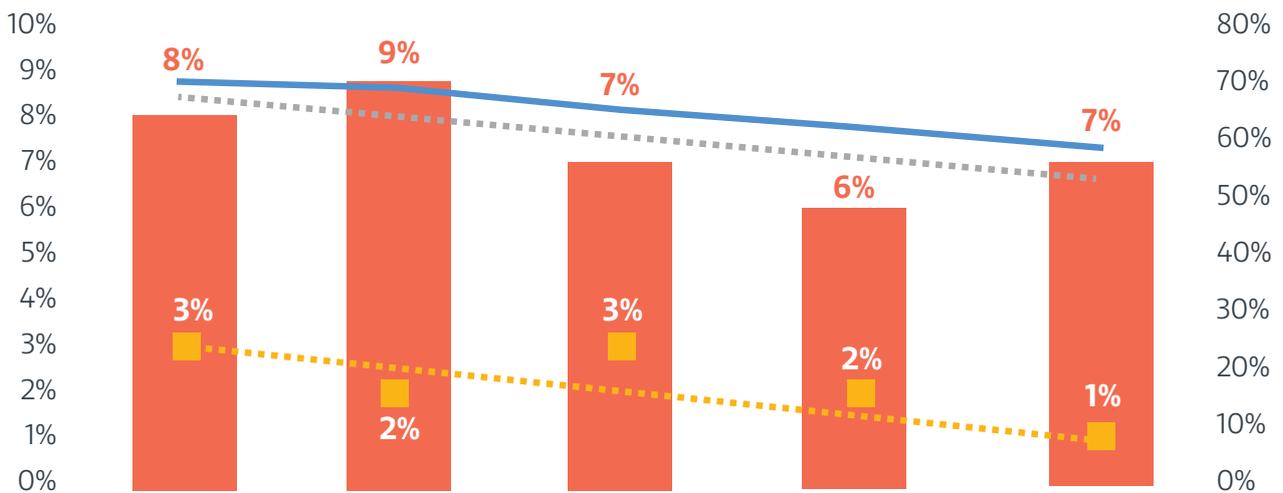


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Table 4 shows the results of the perceived and actual LRA value, based on the hotels included in our customers' preferred programs for the 2017 sourcing season. We broke it down further by examining what percentage of hotels bid for a rate contract with a higher LRA rate than NLRA, assuming they submitted both types on the initial bid response. Outside North America, less than half of the hotels offered LRA rates at a premium. The data suggests a traveler should be able to find a rate that is the same as an NLRA rate about half the time, so having multiple hotels in a target market should negate the need for only negotiating LRA.

Table 4: The difference between perceived and actual LRA value by region



	EUROPE	APAC	NORAM	MID EAST/AFR	SOUTH/LAT AM
Perceived LRA Value	8%	9%	7%	6%	7%
Breakeven LRA Premium	3%	2%	3%	2%	1%
2016 Occupancy Rates	70%	69%	65%	62%	58%

■ Perceived LRA Value
 ■ Breakeven LRA Premium
 — 2016 Occupancy Rates
⋯ Linear (Breakeven LRA Premium)
 ⋯ Linear (Perceived LRA Value)

Which leads to the next question. Are LRAs worth it?

By taking the average percentage difference between LRA and NLRA rates we calculated the perceived LRA premium metric which is quite consistent across regions at 6% to 9% with an overall average of 8%. The break-even LRA premium is lower across all regions, at 1% to 5%; averaging to 3%. There is, therefore, a 5% gap between perception and reality—meaning LRA has been over-valued.

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Over 96% of CWT Solutions Group clients chose LRA clauses for their 2017 programs, even when offered a lower priced NLRA bid. In addition, when only NLRA rates are initially offered, LRA rates were still negotiated 28% of the time.

The LRA perception gap widens

When we looked at top metro hotels, the data shows an even wider gap between perceived LRA premium and break-even LRA premium.

In North America, the perceived LRA value is the same as or more than the true value in seven out of 10 markets, with the widest gap being in Seattle. Atlanta, though, tells a very different story: perceived value is over 11% higher than the true value.

Outside North America, perceived LRA value either exceeds or equals the true value in 9 out of the 10 metro areas. One notable outlier is Amsterdam, which reflects a true LRA value of 24% above NLRA.

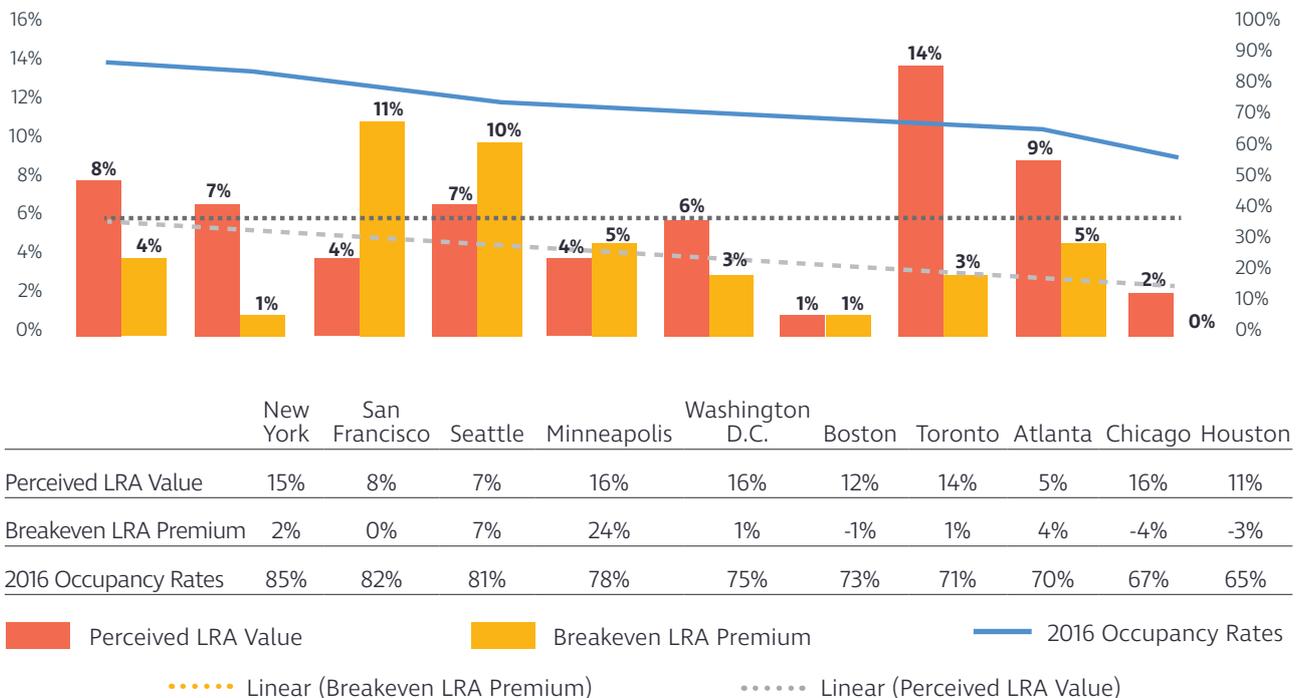
In this deeper look, we incorporated occupancy data

Buyers like the stability of LRA even if it ends up more expensive.

from Smith Travel Research on the top metropolitan areas with their matching LRA premiums. Interestingly, on a global basis, while perceived LRA value holds steady regardless of occupancy levels, the true LRA value trend line follows the decline in occupancy rate. This makes sense: higher occupancy markets should reflect higher LRA value, because rooms are sold out more often. High occupancies may not always indicate true LRA value.

Singapore is a good example – but in general it does appear to follow occupancy trends.

Table 5: Perceived LRA value versus break-even LRA Premium by North American cities

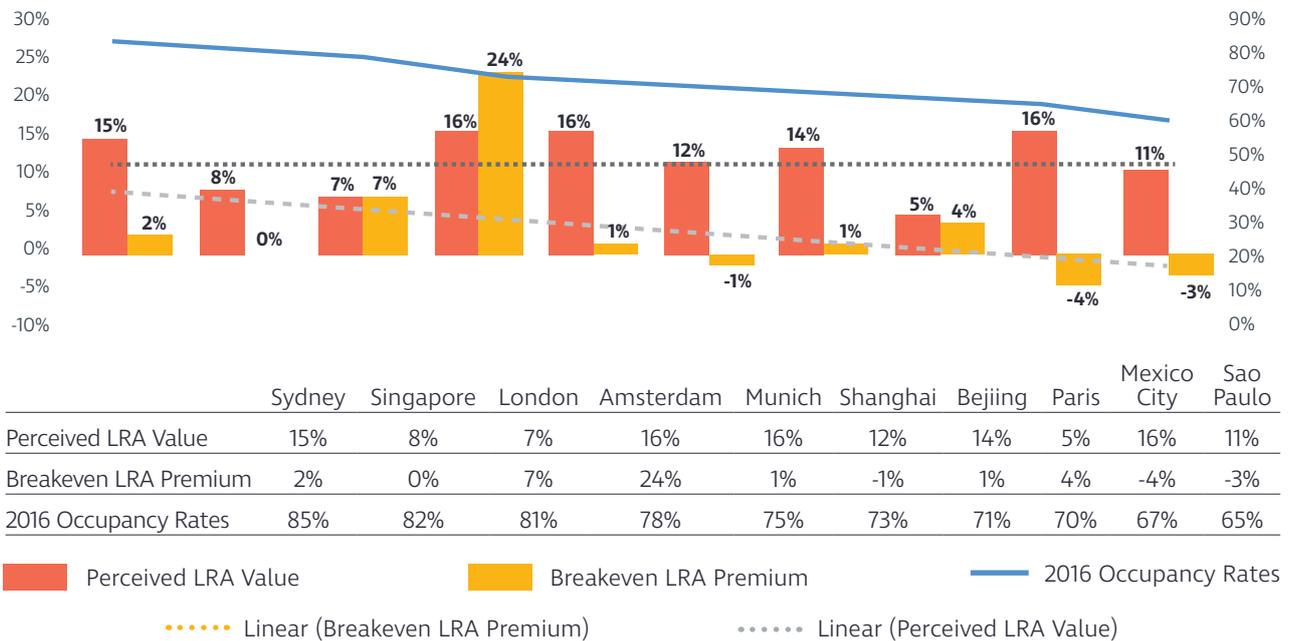




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Table 6: Perceived LRA value versus break-even LRA Premium by cities outside North America



Recommendations

How can we use this information when negotiating 2018 contracts?

LRA rates work the way they ought to: they ensure negotiated room rates are available more often than their NLRA counterparts. But LRAs' gold status is looking a little dulled as the true value may not live up to the perception.

So be wary. Don't assume LRA is always the right option. While it is true that LRA clauses are likely to be the better option for providing the most secure rates, they might not always provide the best value.

In particular, we recommend a deep dive into your top hotel spend markets to quantify the real value of LRA. If your program has multiple hotels in the same city negotiate a mix of LRA and NLRA rates.

Given the premiums placed on LRA rates around the world, it is easy to forget the value of rate availability.

Based on our analysis, hotels would have to offer LRA rates at a premium of 3% or less for companies to receive any benefit—although knowing the dynamics of each individual market remains critical.

1 Quantify the break-even LRA Premium in your top spend cities and use the data when selecting preferred hotels. Using market-specific data such as occupancy rates is a key element when you negotiate and select preferred hotels.

2 Negotiate both LRA and NLRA rates. In cities with multiple hotel options, incorporate a mix of NLRA and LRA rates; especially in low occupancy cities.

3 Understand which room types and number of rooms are available in the negotiated agreement. If a hotel is offering a low rate but only a small percentage of inventory falls into that room type under the negotiated terms, ensure that is factored into the decision criteria.