



RUNNING WITH THE BULLS OR HIBERNATING WITH THE BEARS:

Which Pricing Strategy Is Your Hotel Using?

By Kristi White | Director, Revenue Optimization | TRAVELCLICK®

ARTICLE REPRINT

Every year since 1591, from July 7 through 14, the town of Pamplona in northern Spain has hosted the San Fermin Festival—otherwise known as the “Running of the Bulls.” In the first day of this time-honored celebration, thousands of daredevils dash through the narrow streets to willingly—and literally—run for their lives, chased by a half dozen fighting bulls. These human runners are possessed with an uncommon fearlessness, as though they’ve discovered their “inner bull.”

In reviewing the June 2010 Smith Travel Research (STR) report, I was reminded of the San Fermin ritual. For the sixth month in a row, the Asia Pacific (ASPAC) region was bullish on rates, while the rest of the world still seems bearish. Through the end of June, this region is up 12.8% in occupancy, 10.6% in ADR, and a whopping 24.6% in RevPAR. By comparison, at the same point last year, ASPAC was down 14.4% in occupancy, 17.8% in ADR, and an astounding 29.7% in RevPAR. Somewhere in the last nine months, this region decided to run with the bulls and run their rates up, up, and up.

On the converse side, other regions of the world seem to be hibernating in a bear market. The European region has minimal growth at 1.9%; the Middle East and Africa region is moderately better at 2.1% growth. But, the Americas and the United States (US) are still below the zero line with a 1.0% and 2.0% decline, respectively. However, each of these markets (with the exception of the Middle East and Africa) has realized a 4% or more growth in occupancy.

	2008			2009			2010		
	Occupancy	ADR	RevPAR	Occupancy	ADR	RevPAR	Occupancy	ADR	RevPAR
Americas	-2.3%	5.1%	2.7%	-10.9%	-9.5%	-19.4%	4.5%	-1.0%	-1.0%
Asia Pacific	-3.9%	17.1%	12.5%	-14.4%	-17.8%	-29.7%	12.8%	10.6%	10.6%
Europe	-1.3%	0.9%	-0.4%	-9.8%	-12.2%	-20.8%	5.4%	1.9%	7.4%
Middle East	4.0%	20.8%	25.7%	-12.2%	-3.0%	-14.8%	0.5%	2.1%	2.1%
United States	-2.6%	4.2%	1.5%	-10.9%	-8.7%	-2.0%	4.4%	-2.0%	-2.0%

This chart is especially disturbing when we look back to 2008. In the Americas and the US, hoteliers aggressively drove rates despite declines in occupancy. Now, with occupancy growing again, why are these markets reticent about rate? Why aren’t they driving rate in line with occupancy growth?

These questions have two answers. The first: hoteliers aren’t comfortable with the growth and are taking a wait-and-see approach to pricing. This reason, while acceptable earlier in the year, needs to be put to rest with 8 months of sustained occupancy growth behind us. The second: hoteliers still view pricing in terms of what we used to do in the “good old days.”

Small Increment Pricing

As you reflect on the heady days of pricing in late 2007 and early 2008, what did a price increase look like for your hotel? For most hotels, the smallest increment was probably 10 of their particular currency. More dynamic markets may have had a more dramatic 20–40 increment. The days of those types of increases are well behind us, at least for the foreseeable future. Now, we need to think in more moderate terms of 2–3, 4–6, etc. While this might seem too small an amount to make it worthwhile, a look at the economics supports the argument.

Knowledge Is Power Series

Source: HotelExecutive.com, August 2010

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If you sell a normal room for 100, 70 percent of that will flow to the bottom line. So, your hotel will net 70. If an eager desk clerk at your hotel were to upsell the customer to a premium room product (100 to 140), 90 percent of the incremental revenue would flow to the bottom line. So, rather than 70, you would net 106 on that room, which is a 51 percent improvement on your profit. You can't upsell every guest, so while this is a good practice, it isn't always sustainable as occupancies recover and you eventually have fewer premium rooms available to upsell. So, you have to do something about those base rooms. This is where the 2 to 3 or 4 to 6 room increments come into play.

In the example below, using 2010 year-to-date numbers, you can see the change in revenue by region that these small rate improvements would provide. The smallest variance would be at the 2 increment in Europe, with only a 35,000 increase in revenue. The largest increase would be at the 4 increment in the Middle East, with a 153,000 revenue increase. More importantly, as this would be incremental revenue, it would flow to the bottom line at the 90 percent mark. So, that 35,000 increase would add 31,500 to the bottom line.

Region	Number of Rooms	2010 YTD Occupancy	Number of Total Rooms Sold	2010 YTD ADR	2010 Average Revenue	Increment of 2	Increment of 3	Increment of 4
United States	93	56.40%	19,145	97.18	1,860,509	1,898,799	1,917,944	1,937,089
Americas	91	56.70%	18,833	99.59	1,875,569	1,913,235	1,932,068	1,950,901
Europe	79	60.70%	17,503	97.00	1,697,776	1,732,782	1,750,285	1,767,787
Asia Pacific	142	63.90%	33,119	127.32	4,216,758	4,282,977	4,316,116	4,349,236
Middle East	169	62.40%	33,491	157.52	6,063,172	6,140,155	6,178,646	6,217,137

As we see from these charts, even the smallest changes can have an impact on the bottom line. A 35,000 increase in revenue can be the difference in laying off personnel at one hotel and paying the mortgage at another. And, it was accomplished with only one small change. The next change is farther reaching and will likely be more difficult to achieve.

The Competitive Set

Let's work under the assumption that you have a well-defined comp set. What does your pricing model look like against your competitive set? Most hotels benchmark highs and lows against just one or two hotels, e.g., "We don't ever want to be higher than Hotel A or lower than Hotel Z." Then, they typically use one additional hotel as a barometer for where their rates should be, e.g., "We want to be within an increment of 5 of Hotel C."

With this, you run your competitive rate shop report and then diligently watch Hotel C. On Tuesday, Hotel C drops its rate by 8 percent. So, you reactively drop your rate by 9 percent. And, Hotel D, which uses you as their barometer, drops their rate 10 percent, and Hotel B, which watches Hotel D, drops their rate 11 percent, and so on. Now, let's take another step back and ask a simple question. What if the person at Hotel C is an idiot? What if all of these rate decreases were based on the arbitrary act of one person at one hotel who didn't really know what he or she was doing?

Laugh if you will at the premise that a competitor might be an idiot, but it happens every day. There is a saying in our industry that you are only as smart as your dumbest competitor. Rather than watching and reacting to your competitive set, just watch. Respond only when your competitor's changes affect your booking pace.

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Let's take that same scenario and rather than reacting, watch and monitor your booking pace. If Hotel C's rate decrease did not adversely affect your booking pace, then don't respond. If a response is needed due to a negative impact on your booking pace, move down in the smaller increment from what you've seen above. This way, you mitigate the damage and have less ground to cover when you are ready to recover your rate.

Occupancies have stabilized and are recovering around the world. It's time for ADRs to make the same recovery. No more hibernating with the bears. For those regions still in hibernation, the time to act is now. At best, consumers will accept a 5% increase in rate annually. While that might not seem much, it's better than a 5% move in the opposite direction. For hoteliers, every day in the foreseeable future should be a run with the bulls—with the same sense of urgency and confidence. Viva San Fermin!



Kristi White is Director of Revenue Optimization for TRAVELCLICK®. An industry veteran, she leads one of the most unique organizations within TRAVELCLICK, the Revenue Optimization Team. The team is 100% dedicated to providing personalized attention to TRAVECLICK iHotelier® customers to maximize each hotel's transactions revenue through best practices in marketing and distribution. A recognized expert in her field, Kristi is a frequent speaker on revenue management and distribution at industry conferences and hospitality schools. She is a former member of the Board of Directors for the HSMIAI Revenue Management Special Interest Group. Kristi holds a B.A. in political science from Louisiana State University and a Certified Hospitality Sales Professional and Certified Hospitality Supervisor certification from the American Hotel and Lodging Association. She can be contacted at 281-846-7073 or kwhite@travelclick.net.

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