

HOTEL PRICING IN A CONVALESCENT ECONOMY

Hitting the Reset Button



Knowledge Is Power Series

By Kristi White | Director, Revenue Optimization | TRAVELCLICK®

ARTICLE

The last 18 months have been an eventful yet brutal ride for the hotel industry. It's reminiscent of the headlines we see after a fire in a public place: "Three-alarm Inferno at Local Movie Theater: Four Suffer First-degree Burns, 17 Injured in the Stampede." In our world, the rapid decline of the economy was the fire, and the freefall descent of rates was the rush for the theater doors. Hotels are assessing the damage as we begin to recover. Just how bad was it for you?

Now that the first few months of 2010 are behind us, occupancies for most hotels are stabilizing. The seven- to ten-point drops realized in early 2009 are in the past now. In January, regions across the globe realized occupancy variances ranging from a minor decline of 2.3 percent in the Middle East to a significant increase of 13.9 percent in Asia Pacific. This is encouraging regional news that comes on the heels of a stronger-than-anticipated fourth quarter. Still, in specific markets within those regions, rates are not showing this same elasticity. For every region like Australia and Oceania with a 29 percent increase in rate, we have a region like North America with a 6 percent decrease.

The increases in Australia and Oceania are significant, and they showcase a region of the world where hoteliers are once again bullish about rates. They recognized the stabilization as a coming trend and are responding as the line curves up rather than as it reaches its apex. The hotels that are seizing this opportunity will be the ones that exit the recession with less damage.

The recent decreases in rates in North America, the Middle East, and Central and South Asia are more problematic, as these declines are on top of the declines realized throughout last year. Rather than taking advantage of stabilizing occupancy performance, these markets are still trending down and further delaying recovery.

Where does your hotel go from here? How do you stop the downward trend and move forward? The simplest answer is to start over, or reboot. We as hoteliers need to refresh the way we think about rates, their subsequent increases, and how they will fit with our market and/or competitive set.

Take a moment and hit "control alt delete" in your thought process. Once you have your log-in screen, let's look at the new way of pricing.

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 might 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.

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 2-3 or 4-6 room increments come into play.

In the example below, using the year-end numbers from 2009, 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 152,000 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.

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Region	Number of Rooms	2009 Occupancy	Number of Total Rooms Sold	2009 RevPAR	2009 Average Revenue	Increment of 2	Increment of 3	Increment of 4
United States	93	55.10%	18,704	53.71	1,823,797	1,861,205	1,879,908	1,898,612
Americas	91	55.30%	18,368	54.81	1,819,891	1,856,627	1,874,995	1,893,363
Europe	79	61.10%	17,618	57.59	1,660,162	1,695,398	1,713,016	1,730,634
Asia Pacific	142	60.70%	31,461	72.74	3,772,466	3,835,387	3,866,848	3,898,309
Middle East	169	62.00%	38,245	95.44	5,886,242	5,962,731	6,000,976	6,039,221

These minor changes would also improve hotel RevPAR.

Region	Number of Rooms	2009 Occupancy	Number of Total Rooms Sold	2009 RevPAR	Increment of 2 RevPAR	Increment of 3 RevPAR	Increment of 4 RevPAR	Increment of 2 Variance	Increment of 3 Variance	Increment of 4 Variance
United States	93	55.10%	18,704	53.71	54.83	55.38	55.93	2.1%	3.1%	4.1%
Americas	91	55.30%	18,368	54.81	55.90	56.45	57.00	2.0%	3.0%	4.0%
Europe	79	61.10%	17,618	57.59	58.80	59.41	60.02	2.1%	3.2%	4.2%
Asia Pacific	142	60.70%	31,461	72.74	74.00	74.61	75.21	1.7%	2.6%	3.4%
Middle East	169	62.00%	38,245	95.44	96.66	97.28	97.90	1.3%	1.9%	2.6%

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?

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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.

Let's look again at the Tuesday scenario described earlier. Rather than reacting, watch and monitor your booking pace. If Hotel C's rate decrease did not adversely affect your booking pace, then you have no need to respond. When you do need to respond due to a negative impact on your booking pace, move down in the smaller increment from what you've seen above. This way, you can mitigate the damage and have less ground to cover when you are ready to recover your rate.

Although occupancies are stabilizing—and in some instances recovering—our industry is still in a partial stampede. By rebooting your assumptions, revising the increments you use when adjusting rates, and changing the way you respond to your competitive set, you can survive the damage—and thrive in the return to a healthy economy.



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 HSMIA 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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