

# SOLID STRATEGY OR TEMPEST IN A TEAPOT?

## A Comparison Between Daily Dynamic Pricing and Full-Pattern Length of Stay



Knowledge Is Power Series

By Kristi White | Director, Revenue Optimization | TRAVELCLICK®

WHITE PAPER

Full-Pattern Length of Stay (FPLOS) pricing is the new buzz word for the hotel industry. FPLOS presents a unique price point based on the arrival date and length of stay of the query, uniformly assigned to each date of the query. Some brands have wholly embraced the concept and believe FPLOS is the way to run a hotel. Yet at closer examination, does FPLOS actually deliver on its promise—or is it the equivalent of Wall Street risk management models (great in the good times) and an unmitigated disaster when things occur outside the model. Although FPLOS has some positive benefits for a sub-segment of the industry, as a whole, most hotels will not gain from it and could be dramatically and negatively impacted if not tempered with “real world data driven” decision-making. How can you make the move from instinct-driven to data-driven business decisions? Here are some guidelines to help you through the process.

### Where can FPLOS benefit hotels? Two instances:

1. **Higher-than-normal Average Length of Stay (ALOS)**—The ALOS for hotels<sup>1</sup> hovers around the two-night mark. At this mark, year-round compression is typically not enough to support FPLOS. Customers at these hotels tend to be transient travelers with only minimal affiliation. They are accustomed to the intricacies of variances in rate and for the most part understand supply and demand and the vagaries of rate changes.<sup>2</sup> Hotels with an ALOS that is well above the two-night mark—for example, extended-stay properties or resort properties where guests tend to stay longer and anticipate discounting or consistent pricing across their longer stays—generally have customer segments that are more easily influenced by FPLOS. Also, these customers are less prone to last-minute changes in travel patterns that might impact rate changes to which traditional transient guests are often prone. Bringing all key stakeholders into agreement is the starting point. Ensure that each team member understands the goal: creating a process for your hotel to move from an instinctive, hit-or-miss course of action to fact-based decisions that will support the hotel as a whole. Avoid focusing on tactics at your initial, high-level meeting but rather, concentrate on building consensus that change is needed.
2. **Higher-than-normal overall occupancy compression**—During periods of higher compression, FPLOS can benefit a hotel by driving higher average daily rates (ADRs) over these dates. However, on average, most hotels sell out 30–40 days (8 percent to 12 percent) of each year. So, for 88 percent or more of the year, most hotels have peaks and valleys that are better served by offering daily pricing that enables them to be dynamic and competitive. In lower-demand periods, FPLOS will often overprice a hotel on longer stays, resulting in lost business or in periods of variable demand—or underprice a hotel resulting in the booking but a negative revenue impact.

With these two instances in mind, it is imperative that we understand the hotel business model, beginning with ALOS. With our iHotelier® Central Reservation System customers, ALOS is easily determined. For others, we need to open the dialogue about ALOS, and then work around their annual occupancy and the anticipated sell-out dates. Hotels should be managed around what works for the majority, not the minority, of dates.

Now that we understand when and why a hotel might benefit from FPLOS, let's discuss other tips for overcoming FPLOS and specifically overcoming other Central Reservation System (CRS) programs that support FPLOS.

<sup>1</sup> Source: iHotelier database 2006–2008

<sup>2</sup> “Best-available-rate Pricing at Hotels: A Study of Customer Perceptions and Reactions,” Sheryl E. Kimes, Ph.D., and Kristin V. Rohlfs, Cornell University School of Hotel Administration, 2007

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### Driving Price During Variable Demand Periods

Chart 1 is an example of a rate chart that would be sent by the revenue management system. This chart shows by date and length of stay the rate value that would be sent to a CRS that supports FPLOS. As we can see from the one-night-stay pricing in the second column, this hotel is realizing periods of significant variable demand and as a result, the single-day pricing varies greatly.

Now, let's look at a multi-night stay as it would be realized in both a FPLOS environment and in the iHotelier system using daily dynamic pricing. In Chart 1, a customer arriving on April 1 and staying for four nights would be quoted \$250 by a CRS supporting FPLOS, resulting in total revenue of \$1,000 for the stay.

In the iHotelier system, this same reservation would have been quoted an average daily rate of \$175, resulting in total revenue of \$600 for the stay. At first look, the FPLOS reservation seems vastly superior. It resulted in a 40 percent increase in revenue for the same reservation. And, in the vacuum of this pricing scheme, it makes sense. However, let's layer in another factor relative to the average competitor rates over these same dates.

DATE	1 LOS	2 LOS	3 LOS	4 LOS	5 LOS	6 LOS	7 LOS	8+ LOS
01-APR	\$100	\$125	\$250	\$250	\$100	\$75	\$100	\$75
02-APR	\$100	\$250	\$175	\$125	\$75	\$75	\$75	\$75
03-APR	\$250	\$250	\$100	\$125	\$125	\$75	\$75	\$75
04-APR	\$250	\$100	\$175	\$125	\$125	\$100	\$75	\$100
05-APR	\$175	\$125	\$150	\$100	\$75	\$125	\$75	\$75
06-APR	\$100	\$75	\$100	\$125	\$150	\$200	\$100	\$75
07-APR	\$75	\$100	\$125	\$150	\$200	\$100	\$75	\$100
08-APR	\$250	\$250	\$100	\$125	\$125	\$75	\$75	\$75
09-APR	\$125	\$150	\$100	\$75	\$125	\$75	\$75	\$125
10-APR	\$100	\$125	\$250	\$250	\$100	\$75	\$100	\$75

Chart 1

DATE	1 LOS	2 LOS	3 LOS	4 LOS	5 LOS	6 LOS	7 LOS	8+ LOS
01-APR	\$115	\$110	\$152	\$176	\$178	\$165	\$153	\$166
02-APR	\$105	\$170	\$196	\$194	\$175	\$159	\$173	\$166
03-APR	\$235	\$242	\$224	\$192	\$170	\$184	\$175	\$165
04-APR	\$248	\$218	\$178	\$154	\$174	\$165	\$155	\$149
05-APR	\$188	\$143	\$122	\$156	\$148	\$140	\$134	\$130
06-APR	\$97	\$90	\$145	\$138	\$130	\$125	\$122	\$119
07-APR	\$82	\$169	\$152	\$139	\$131	\$126	\$122	\$119
08-APR	\$255	\$187	\$158	\$143	\$135	\$129	\$125	\$122
09-APR	\$118	\$109	\$106	\$105	\$104	\$103	\$103	\$102
10-APR	\$100	\$100	\$100	\$100	\$100	\$100	\$100	\$100

Chart 2

Chart 2 shows the average rate for each length of stay for the competitive set for our subject hotel. In this instance, the average rate for a four-night stay with an April 1 arrival has been highlighted. For the competitive set, the average rate for a four-night stay is \$176 (this is calculated by averaging the day-by-day price for the dates in question, which is the method used by most Internet booking engines).

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We know from market research that consumers search an average of three to four websites before making a booking decision. In this example where the competitive set is priced on average 29 percent lower than the FPLOS hotel, what is the likelihood that this reservation will convert for the hotel? While on paper, FPLOS would generate 40 percent more revenue on this booking, if the booking is never received, there is no 40 percent increase—only a 100% loss.

This is a classic example of how FPLOS can artificially inflate rates when valley periods are co-mingled with higher demand periods. In this instance, the system placed a greater importance on the one or two dates of higher demand and as a result, negatively impacted the booking as a whole.

### Driving Occupancy During Lower Demand Periods

Now we have seen what happens when the system places a higher importance on one or two higher demand periods and as a result drives rate. What about times when the system places higher importance on capturing the booking and not on optimizing the revenue? Using the same rate examples from above, we will look at a longer stay and how revenues are impacted from a FPLOS system versus a daily dynamic pricing environment.

DATE	1 LOS	2 LOS	3 LOS	4 LOS	5 LOS	6 LOS	7 LOS	8+ LOS
01-APR	\$100	\$125	\$250	\$250	\$100	\$75	\$100	\$75
02-APR	\$100	\$250	\$175	\$125	\$75	\$75	\$75	\$75
03-APR	\$250	\$250	\$100	\$125	\$125	\$75	\$75	\$75
04-APR	\$250	\$100	\$175	\$125	\$125	\$100	\$75	\$100
05-APR	\$175	\$125	\$150	\$100	\$75	\$125	\$75	\$75
06-APR	\$100	\$75	\$100	\$125	\$150	\$200	\$100	\$75
07-APR	\$75	\$100	\$125	\$150	\$200	\$100	\$75	\$100
08-APR	\$250	\$250	\$100	\$125	\$125	\$75	\$75	\$75
09-APR	\$125	\$150	\$100	\$75	\$125	\$75	\$75	\$125
10-APR	\$100	\$125	\$250	\$250	\$100	\$75	\$100	\$75

Chart 3

In our next example, Chart 3, we will showcase a seven-night reservation with an April 3 arrival. In the FPLOS environment, the hotel would quote a rate of \$75 per day, resulting in \$525 in total revenue.

That same reservation using the daily dynamic pricing model would have resulted in a reservation that generated \$1,225 in total room revenue (calculated by combined the nightly rate from the chart above). In this example, the hotel would have generated 133 percent more revenue using daily dynamic pricing.



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As we compare that to the average competitive set pricing as seen in Chart 4, we see that that the comp set was priced at \$175 per day. So, the hotel most likely would have captured this booking, but at the expense of overall revenues.

As seen from these two examples, FPLOS potentially benefits a hotel only during excessive demand periods. However, as most hotels have peaks and valleys that require a more nimble approach, FPLOS results at its worst in a loss of reservations and at its best, benign revenue left on the table.

DATE	1 LOS	2 LOS	3 LOS	4 LOS	5 LOS	6 LOS	7 LOS	8+ LOS
01-APR	\$115	\$110	\$152	\$176	\$178	\$165	\$153	\$166
02-APR	\$105	\$170	\$196	\$194	\$175	\$159	\$173	\$166
03-APR	\$235	\$242	\$224	\$192	\$170	\$184	\$175	\$165
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08-APR	\$255	\$187	\$158	\$143	\$135	\$129	\$125	\$122
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10-APR	\$100	\$100	\$100	\$100	\$100	\$100	\$100	\$100

Chart 4

### Impact on Overall Business Model

In today's world, most hotels obtain 15 percent to 20 percent of their overall business from third-party Internet (TPI) sites. These sites offer additional marketing opportunities at a margin for hotels. Other than discounting their rates to meet these margins, most hotels have to do little to obtain this business. The only rule that is inviolate with these sites is parity among them.

Hotels using FPLOS will never achieve this feat. The TPIs do not support FPLOS and do not have any plans to support it in the future. Hotels using FPLOS will always be out of parity. This means that they will either be 1) priced lower on the TPI, meaning that they will drive more business to these expensive sites and drive down overall profitability or 2) lower rated on their website and direct channels, meaning that the TPIs will lower their position. This will lead to fewer bookings through this channel, which will lower overall occupancy.

### Daily Dynamic Pricing: The Better Choice

While a FPLOS system at times will positively impact a hotel, these times are rare and are the exception to the rule. Daily dynamic pricing is more supportive of a hotel's need to optimize revenues and drive occupancies. With the flexibility inherent in daily pricing, hotels can easily manipulate their rates to fit the needs at that moment, driving rate due to high demand or driving occupancy during lower demand periods while still remaining competitive.

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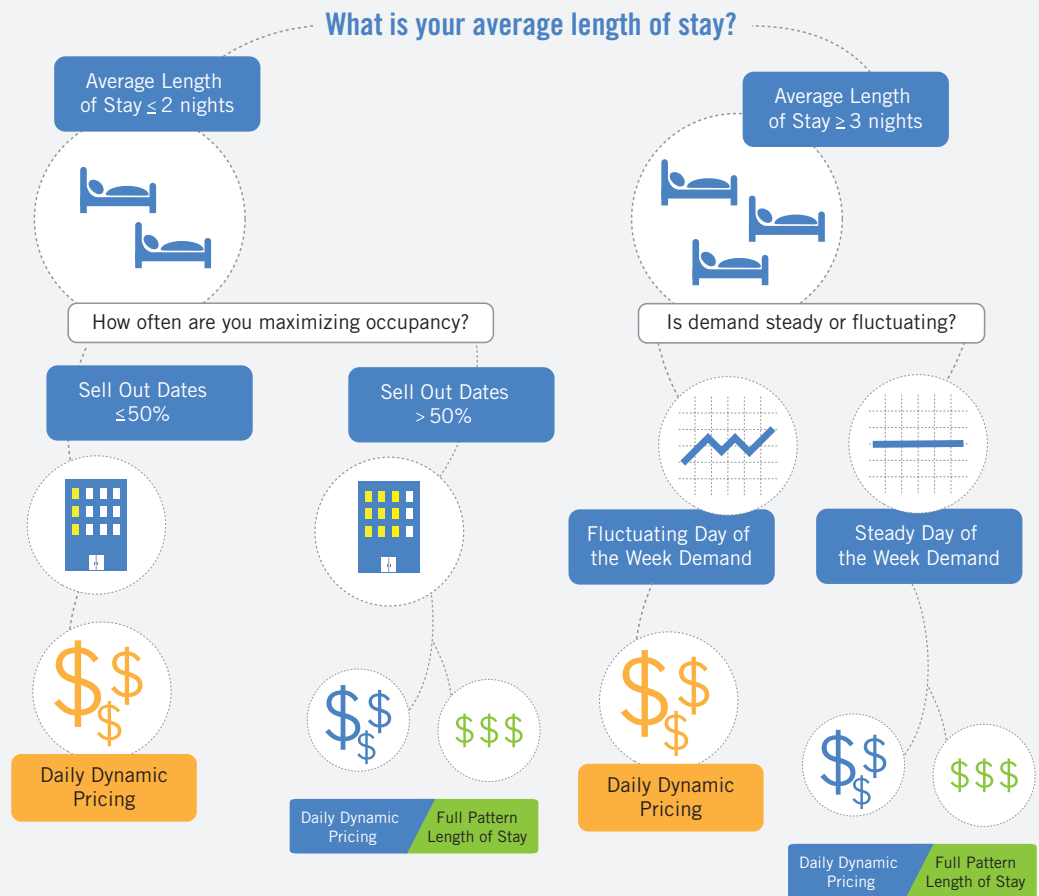
### Deciding Which Pricing Strategy Fits Your Hotel

**Q. What is the average length of stay for your hotel?**

**A.** Unless your hotel benefits from an above-average length of stay, daily dynamic pricing gives you more inherent flexibility to manage your rates for the demand needs of your hotel while remaining competitive within your market and competitive set.

### PRICING STRATEGY DECISION TREE

- **Orange:**  
Daily Dynamic Pricing - will provide the best strategy to maximize room revenue and manage demand.
- **Blue:**  
Daily Dynamic Pricing - will provide a solid strategy option for maximizing room revenue and managing demand.
- **Green:**  
Full Pattern Length of Stay - could be considered but requires in depth understanding of the varying stay pattern trends and buyer influence.



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### Deciding Which Pricing Strategy Fits Your Hotel (cont.)

**Q. How many days per year do you sell out your hotel?**

A. FPLOS can benefit a hotel during times of excessive demand. However, unless you fill your hotel more than 50 percent of the year, you are most likely managing to the exception rather than to the rule. As a result, there are many times where you are overpriced and will lose the booking altogether or you are underpriced and will capture the booking but leave revenue on the table.

**Q. What is your contribution from the TPIs?**

A. Unless your hotel benefits from an above-average length of stay, daily dynamic pricing gives you more inherent flexibility to manage your rates for the demand needs of your hotel while remaining competitive within your market and competitive set.

**Q. What pricing models are your competitive set and/or market using?**

A. In an environment where most of the competitive set is using daily pricing, FPLOS will always result in anomalous pricing that will lead to pricing that is higher or lower than comp set. Either way can be detrimental to hotels, as it will result in either lost bookings or revenue left on the table.



*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. Her team is 100% dedicated to providing personalized attention to TravelCLICK 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 numerous industry conferences and hospitality schools. She is also a 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 817-719-2956 or [kwhite@travelclick.net](mailto:kwhite@travelclick.net)*

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