

PRICING: SO MUCH MORE THAN JUST A RATE



By Kristi White | Director, Revenue Optimization | TravelCLICK Inc.

WHITE PAPER

In today's tempestuous economy, with demand and hotel occupancies declining, hoteliers are looking for strategies to drive demand for their hotel. Many use discounting as their sole strategy for maintaining occupancy. What they find, however, is that cutting prices alone does not drive new demand; it only diminishes the return on existing demand. What they should be focused on is capturing more of the demand that is already there—that is, gaining market share from the competition. Price is part, but not all, of a winning strategy.

THE RIGHT MARKET PRICE

Price is an influencer in consumer buying, but the competitive advantage lies in using the “right market price” (RMP) as part of a broader strategy. What will bring more guests to your hotel is the RMP, used in combination with three key tactics:

- Right distribution — Puts you where consumers are shopping
- Strong positioning — Ensures your property is considered by prospective guests
- Compelling message — Reinforces your value proposition

The RMP is the price point that consumers feel is a good value exchange for the cost of your product. If they do not perceive your price as a fair one, based on their purchasing experience and the intelligence they've gleaned from shopping other hotels, they won't buy; they'll move on. On the other hand, if they see your price as fair or even as a value for their dollar, they are more likely to book with you.

Consumers generally consider several hotels and channels before purchasing. In fact, recent studies indicate that nearly 60 percent of travelers who use the Internet will engage search engines to research hotels, and 66 percent check rates from at least three websites before purchasing.

- Which hotels are they considering?
- Are you one of their options?
- Is your value proposition strong and clearly stated?

Answering these questions will assist you in maximizing your online marketing strategies and will ensure your hotel is in the consumer's consideration set, while the right price will help close the sale.

COMPETITIVE PRICE SHOPPING

Which hotels are in your competitive set? This is an age-old question often debated among hotel managers and owners. Yet when it comes to selling your hotel, what you or your owners think is irrelevant. All that matters is who your potential customers perceive to be your competitors.

For example, when a customer searches for hotels in your city using popular search engines or an online travel agency, many hotels will return that you may not consider to be your competitors. But regardless of your perception, everyone who ends up in the list is, in the view of the consumer, your competition. It is important, then, to know who is returning in those searches and what your value proposition is in comparison to this customer competitive set.

You can further see your competitive set through consumers' eyes by talking directly with your guests or by using a simple customer survey. For example, have your desk clerks engage the customer at check-in, asking if they have stayed at your hotel before. If they haven't, have they been to your city? Where else have they stayed? Why did they select that location?

Once you've uncovered your customer competitive set, use rate-shopping data as a way to better understand your market, not



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01

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as the way of setting your rates. Far too many hotels set their price based on what the competition is doing rather than as one of the contributing factors of judging demand in the market and validating your pricing decisions.

For example, if one of your competitors drops their rate, instead of reacting immediately by dropping your rate, first see if their rate change has any impact on your business. Look at price as a variable that is influenced by increases and decreases in demand. Use this information in your forecasting and pricing decisions.

By leveraging these two tools—competitive set through the eyes of your customers, coupled with rate-shopping data—you can better understand your market's distinct variables. This information will help you forecast demand and, ultimately, determine your RMP.

PRICING AS A STRATEGIC LEVER

To drive results, pricing should be leveraged as part of your hotel's total revenue strategy—along with demand generation strategies that include distribution and marketing. When RMP is combined with an effective demand generation program, the results are impressive and immediate.

A prime example is your hotel's website. Marketing is used to promote your site through multiple distribution channels; bring traffic to the site to consider your offering; and ultimately, sell your product. Pricing works in several parts of this process:

- Marketing messages can serve as a call to action, bringing more consumers to consider your hotel by letting them know the value of your product. Use messaging around price as a call to action — for example, an aggressive lead rate, free night offer, or “complimentary upgrade” — to drive potential guests to your hotel.

- A Best Rate Guarantee prominently displayed on your property website speaks to the consumer, saying there is no need to go elsewhere—in a nutshell, “Buy Here.”
- Rate parity assures prospective guests that the Best Rate Guarantee holds true.

Achieving online visibility through multiple marketing tools is key to reinforcing your value proposition. Effectively marketing your property through such tools as pay-per-click (PPC) advertising, search engine optimization (SEO), or email campaigns helps ensure that prospective guests can find you — and will consider the value you are offering. For example, say you offer an aggressive rate to fill the gap left by a group that has dropped out. You distribute the rate to all channels and rely on your website and online travel agents to pick up some of the shortfall. But unless your hotel is running advertising campaigns to drive traffic to your website or has gained a top-of-page position on third-party sites, few will know the value you are offering.

RMP BEST PRACTICES

When setting your RMP to use in your revenue strategy, consider these best practices:

- Determine your customer competitive set. Be honest with yourself. Talk to your customers. Which hotels do you truly compete with for available demand?
- Measure market dynamics. Leverage rate shopping and market intelligence. Determine from the data what is happening with demand and how your competitors are reacting.
- Forecast demand. Your own hotel's pace and the markets will influence forecasting. Measure unconstrained demand and determine which days are low demand, high demand, and overdrive demand.



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02

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- Test price and measure booking pace. Set the price that you know will deliver the right amount of business for you. Consider historical trends, future pace, and market dynamics. RMP may vary as demand differs. Continuously test and measure to find the RMP for every change in demand.
- Measure conversion rates. Your marketing program may drive a great deal of demand, but if conversion does not increase, your price is likely not the RMP for the buyer.
- Adjust price. Keep testing and measuring.
- Repeat this process.

In summary, remember that discounting is not a strategy that should be implemented in a silo — and it does not drive demand. Even though price continues to be a key influence in a customer's buying decision, discounting in isolation, apart from an integrated business strategy, will cost you margin. Leverage pricing as a part of your strategy combined with distribution, competitive benchmarking, and online marketing tools to drive traffic to your property website, differentiate the value of your product offering, and ultimately, capture market share from your competitors. ■



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

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03