

RESPONSIBLE DISCOUNTING IN RECESSIONARY TIMES



Top Strategies to Maintain Rate Value in Today's Turbulent Economy

By Sara Duggan | Director, Marketing | TravelCLICK Inc.

WHITE PAPER

Although the hotel industry has been strong in recent years, it is not immune to a soft economy. Today's declining occupancies reflect declining demand. In response, some hotels are panicking and slashing rates in the belief that deep discounts are needed to defend market share. But a recession is no grounds for panic pricing. Instead, hotels should use a strategy of "responsible discounting," avoiding price wars with competitors, seeking smart ways to maintain rate value, and striving to protect their brand.

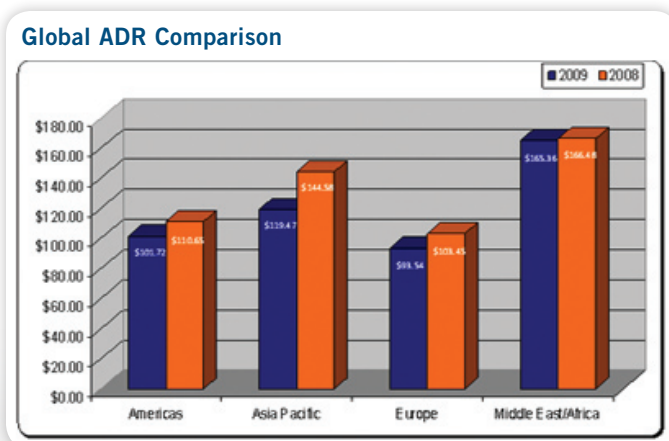
LEARNING FROM THE PAST

History has proven that aggressive discounting doesn't work and often leads to failure. In the aftermath of 9/11, hoteliers slashed rates to try to capture room nights—at any price. This tactic did not succeed in bringing in incremental room nights. Instead, it reduced revenues without increasing occupancy, and caused severe damage to hotels' rates and brand integrity. Once the recovery was underway, even with demand on the rise, raising rates back up to pre-9/11 levels proved difficult. Lesson learned: it's easy to slash rates, but not easy to bring them back up against competitive forces when the economy improves.

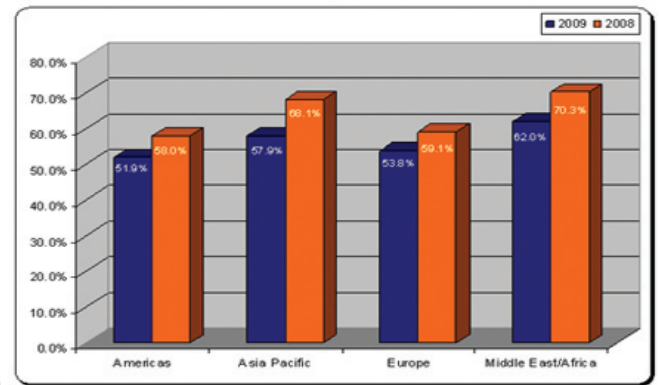
RIDING DOWNWARD TRENDS

As the charts below indicate, today's combination of lower demand and panic rate cuts is pulling revenue down worldwide.

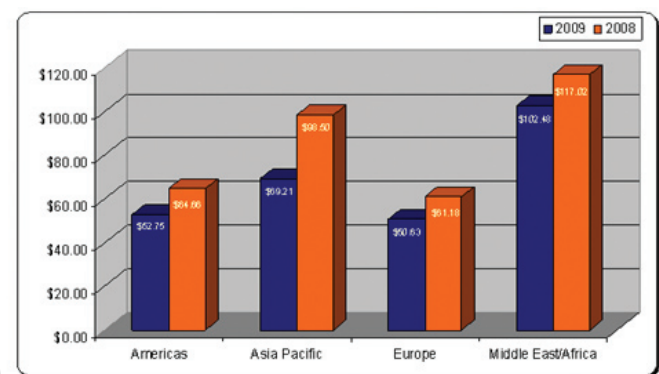
GLOBAL ADR TRENDS: YEAR TO DATE, MARCH 2009 VERSUS 2008



Global Occupancy Comparison



Global RevPAR Comparison



Smart hotels, however, have not experienced the same dramatic reduction in revenue during this period. They are practicing responsible discounting that responds to market conditions, but does not blindly follow panic rate cuts.

THINKING STRATEGICALLY, NOT REACTIVELY

Today's down time is exactly the right time to look at new approaches to responsible discounting. Here are four strategies moving towards to a rate value mindset:



Knowledge is Power Series
Rate Management Strategies for Tough Economic Times

Corporate Headquarters
Chicago +1 847 969 0820

Europe Office - Barcelona
+34 93 520 80 08

Asia Pacific Office - Melbourne
+61 3 9699 9969

www.travelclick.net

01

RESPONSIBLE DISCOUNTING IN RECESSIONARY TIMES

Top Strategies to Maintain Rate Value in Today's Turbulent Economy



By Sara Duggan | Director, Marketing | TravelCLICK Inc.

WHITE PAPER

1. Watch your competitors—but don't copy them. How do you react to your competitors' changes in price? Do you rush to match their decrease? 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.

It's certainly tempting to look at competitors' rates online and believe that you can actively tweak consumer behavior in real time, but the reality is far more difficult. Online shopping looks at publicly available rates, i.e., Global Distribution System (GDS) and Internet, which typically account for about 20 percent of business. This means that many hotels are making short-term pricing decisions with no visibility to the other 80 percent of the business. The fundamental question hoteliers should ask is this: Did that decision cause me to increase or decrease my market share?

The ability to effectively manipulate through price is possible only in a growing market. The solution lies in market share. Establish and set your market share benchmark and then closely monitor what effect each pricing decision has on this and RevPAR penetration. This is the only responsible way to manage business in the current climate and make sure that your hotel is in the best shape possible when the recovery starts.

For better forecasting and pricing decisions, consider these steps:

Target reductions. Avoid discounting across all market segments and rate plans. Instead, target price reductions by using intelligence reports to assess your market, its travelers, and the business your competition is getting. For example, reducing a corporate rate, may not result in increased room nights, it may simply dilute revenues. If you drop the rate for the rest of the year, it will be all the more difficult to renegotiate back up to previous levels when demand returns. Consider negotiating shorter corporate deals to facilitate long-term recovery.

Let pricing be a strategic lever. To drive results, leverage pricing as part of your hotel's total revenue strategy—along with demand generation strategies that include distribution and marketing.

Decide on an aggressive price point for each demand period. Manage incoming reservations by creating thresholds or steps of price points. Build a base and then raise the rate as demand materializes. Communicate your lead rate through tactical marketing.

Carefully "fence" discounted offers. Limited discounts can boost sales without branding your hotel as a discount seller. A promotion implies a limited time period. Use website analytical tools to determine which promotions are working and which are not performing that well. If you continue to extend your promotional offers, your overall pricing strategy likely needs review.

2. Look through the eyes of the consumer. Be competitive throughout each step of the travel planning and booking cycle. The Internet is the primary source for travel research, which means that travel shoppers have a lot of information at their fingertips. The average online travel shopper visits at least three websites before making a travel decision. Merchandise your hotel throughout the entire travel shopping process, and ensure that you have parity across all channels not only in price, but in content and messaging. Visibility is everything. It's not just about search engine ranking or GDS media, it's about being consistent. Identify the preferred booking methods of your consumers and ensure your presence.

Use marketing tools for maximum visibility. Online marketing tools such as pay-per-click advertising, search engine optimization, email campaigns, and travel agent media can help you gain maximum visibility. Consider how much visual content you display and where you display it. Extract the most value from your online presence with robust hotel profiles, including written descriptions, photos, and rich media on as many websites as possible. Stay current. Replace and add photos and update information on amenities as it becomes available.



Knowledge is Power Series
Rate Management Strategies for Tough Economic Times

Corporate Headquarters
Chicago +1 847 969 0820

Europe Office - Barcelona
+34 93 520 80 08

Asia Pacific Office - Melbourne
+61 3 9699 9969

www.travelclick.net

02

RESPONSIBLE DISCOUNTING IN RECESSIONARY TIMES



Top Strategies to Maintain Rate Value in Today's Turbulent Economy

By Sara Duggan | Director, Marketing | TravelCLICK Inc.

WHITE PAPER

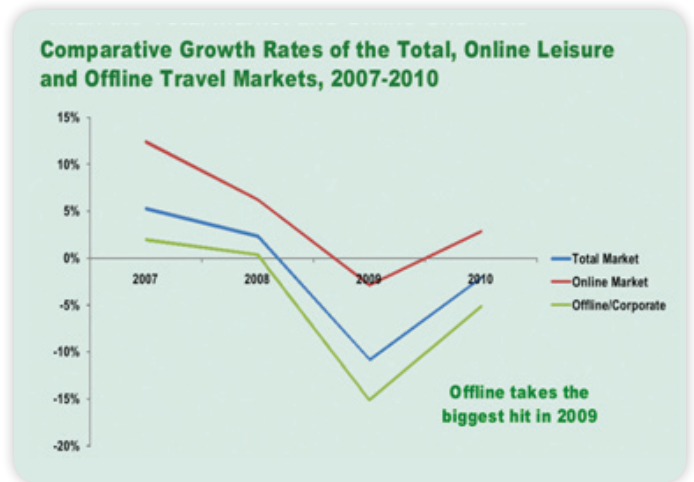
3. Merchandise to combat commoditization. Converting lookers into bookers online is more than putting “heads in beds.” It’s packaging an experience that differentiates your hotel based on value, not price. When your daily rates are comparable to other hotels in your geographic area, in-market travel shoppers will choose the hotel that they perceive will give them more value—the one that best conveys the experience that aligns with their needs and expectations. Provide opportunities for guests to upsell themselves. Be consistent in all aspects of how you present your hotel, from pricing to message. Consistency builds credibility and confirms customer expectations.

Find ways to strengthen customer loyalty. Leverage your email addresses to market directly to repeat customers. Offer promotions or packages that are exclusive to repeat guests.

Use referrals to drive business. Provide incentives to get friends to refer friends. Peer-to-peer communication has a much higher trust value than corporate messaging, as people listen to their friends and colleagues, respect their advice, and are likely to act on it. By enacting a referral program within your hotel group, you can drive more qualified leads to your sales team and reward those meeting planners who already are predominantly loyal to your brand.

4. Reevaluate your distribution strategy. In times of economic uncertainty, distribution through online travel agencies (OTAs) is an option worth revisiting. Although online travel will decline for the first time this year, down 3 percent, the decline will be far less than the total travel market. Even after 9/11, online travel grew, albeit from a far smaller base. Offline/corporate agencies, on the other hand, will decline by double digits—the biggest drop ever.

ONLINE TRAVEL: DECLINING LESS AND RECOVERING SOONER THAN TOTAL MARKET AND OFFLINE CHANNELS



Source: PhoCusWright 2009 Travel Overview

OTAs are gaining leverage against supplier sites, as the pendulum swings in their favor. This is the year of the deal, and OTA websites attract the customers who are looking for the best deal. Generation Y and budget travelers, the ones who are still traveling, favor OTAs as their preferred booking method. On the other hand, Boomers, traditionally the highest-spending and most frequent travelers, are the hardest hit by the downturn and are cutting back. As a result, offline/supplier sites—Boomers’ preferred booking method—are struggling.

At the same time, recent research from PhoCusWright on consumer behavior finds that the new wave of cost-conscious consumers may be changing the duration of their trips, spending fewer nights in hotels or taking fewer trips, but they are not “trading off.” For example, consumers who have always stayed in a three-star hotel are not considering trading up to a four-star. Thus if you’re a four-star property dropping your rates to a three-star price point, you run the risk of simply diluting business rather than persuading the three-star consumer to trade up. The inverse is also proving true: consumers are not trading down, either.



Knowledge is Power Series
Rate Management Strategies for Tough Economic Times

Corporate Headquarters
Chicago +1 847 969 0820

Europe Office - Barcelona
+34 93 520 80 08

Asia Pacific Office - Melbourne
+61 3 9699 9969

www.travelclick.net

03

RESPONSIBLE DISCOUNTING IN RECESSIONARY TIMES

Top Strategies to Maintain Rate Value in Today's Turbulent Economy



By Sara Duggan | Director, Marketing | TravelCLICK Inc.

WHITE PAPER

Along with picking up the budget-conscious travel market, OTAs are aggressively getting more business by removing previous barriers, like booking fees. Expedia/Travelocity recently announced a promotion to drop their air booking fee, and Orbitz countered with a promotion to reduce their lodging booking fee.

Take specific pricing steps to tap into the OTA market and move share. Identify preferred channels of distribution and ensure that you are optimally placed in the channels where consumers are shopping. Sustain and diversify your hotel's exposure through international and domestic tourism by expanding your distribution landscape and working with OTAs popular with consumers.

Tap in to the channels where you can offer opaque or bundled rates. OTAs are taking advantage of their position of strength in this arena, and driving growth through promoting packaging with aggressive marketing. Bundling more services for the same price can be an effective way to be more competitive without cutting deeply into profits. Leverage the power of:

- Partnerships with OTAs that offer bundled packages such as airline and hotel or car and hotel.
- Partnerships with opaque channels, for example, Hotwire or Priceline, which now commands 8 percent of US market share.
- Practice parity using your booking engine to create value-added packages that disguise the discount on individual components.

KEEPING PERSPECTIVE

Despite the turbulent economy, it's important to keep perspective on the hotel industry. People are still traveling. The volume may not be as high as a year ago, and less is being spent per trip, but there is still business to be done. Instead of panicking, be responsible in your discounting. Keep the long term in mind. Discount by using strategies that drive demand but don't lock you in. Remember that discounting is not a strategy that should be implemented in a silo. It does not drive demand. Even though price continues to be a key consideration in customer buying decisions, discounting in isolation—in this economy and any economy—will cost you margin. Leverage pricing as a part of the integrated strategy outlined above

to drive traffic to your property website, differentiate the value of your product offering, and ultimately, deliver an experience that captures more market share. ■



Drawing on global experience in Operations, Distribution, Revenue Management & Marketing, Sara Duggan is currently Director of Marketing for TravelCLICK. Born and raised in Southern Africa, she received her Post Graduate degree in Business Hospitality at IHTTI Hotel School in Switzerland. Prior to joining TravelCLICK and moving to Canada, she worked extensively as a consultant in both Revenue Management

and Marketing. She has created and led the Revenue Management and Distribution Departments for Blackstone's European properties. Sara also holds the designation of Certified Revenue Management Executive from the Hospitality Sales and Marketing Association. A recognized expert in her field, she is a frequent speaker and writer on revenue management and distribution at industry conferences and hospitality schools.



Knowledge is Power Series
Rate Management Strategies for Tough Economic Times

Corporate Headquarters
Chicago +1 847 969 0820

Europe Office - Barcelona
+34 93 520 80 08

Asia Pacific Office - Melbourne
+61 3 9699 9969

www.travelclick.net

04