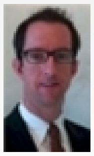
Best Practices

Articles For Hotel Management and Operations



Revenue Management

Be Proactive to Combat Rate Dilution

By Scott Roby, Vice President, Revenue Management, Evolution Hospitality

Rate dilution has continually plagued the hotel industry; it provides a temporary fix to increase occupancy and sometimes increases market share. However, it also has the potential to incur long-term damage to a property and its reputation among consumers. When properties take a reactive approach and lower rates without a larger strategy behind that discount, they run the risk of losing loyal customers willing to pay full price – price cannibalization. Once potential clients receive a low property rate, it is difficult to break their habit of paying a low price and therefore return to rates that reflect the fair market value.

Hotel management must remain proactive and work collaboratively across property teams to influence the property's rate strategy and avoid the rate dilution war. Following, note several best practices in property revenue management.

Targeted Rate Strategy
Though residual recessionary behaviors cause consumers to search for the best value when planning a trip, recent economic trends are signaling that consumers are willing to spend the same, or more, than pre-recession times. In order for hotels to capitalize upon this re-discovered potential revenue pool; they must strategically approach their key audiences with re-calibrated rates and discount structures.

By offering discounts to a segmented group of potential guests, hotels deliberately target audiences that have the potential to become brand loyalists and repeat guests. This can be easily measured quantitatively by comparing realized revenues year-over-year and qualitatively via customer feedback regarding rate structures. Discounts are inevitable in the hospitality business in order to drive volume; however, *strategically* implementing these discounts will prevent the slip into price cannibalization. By basing projected occupancy numbers off of both past empirical data as well as the current market, hotels are able to influence the future discount that is the best for the property as well as the bottom line. The resulting discount structure will drive occupancy and increase profits.

Pricing Fences
According to the HSMAI Foundation Special Report titled The Evolving Dynamics of Revenue Management, pricing fences are critical to any pricing strategy. If every customer could receive the same price for a hotel room on a given night, management is missing the opportunity to maximize revenue. Pricing fences based on minimum length of stay, booking window rules, advanced purchase policies, distribution channel strategies and other opportunities will minimize trade-down and combat rate dilution.

As a hotel looks for opportunities to grow rate with the strengthening economy, a significant impact can be made via addressing and tightening these pricing fences. We often discuss and analyze the percent of transient business that is booking Best Available Rate and look to maximize this contribution. Before making significant increases in your Best Available Rate, look for opportunities to extend length of stay requirements, tighten booking window rules, increase advanced purchase windows, and tighten distribution channel strategies. These changes will grow your rate and make your business more "pure."

Another way to utilize pricing fences that often disappears in a down economy is through maximizing a hotel's room types to drive incremental ADR. As hotel occupancies increase, be sure to measure and leverage the performance of your hotel's various room types. With increased demand, there may be certain room types that should not be associated with any type of discount while others may have fallen out of favor and require a review of the pricing premium to a standard room. Review opportunities to address certain unmet customer needs to see if there are specific changes you can make to the rooms or its amenities to maximize the value proposition.

Differentiation

Although deals, discounts, and packages continue to remain top hospitality search terms, value to guests is not just limited to dollar savings – it also lies within their experience. The value of hospitality is delivered through consumer experiences with the property that allow visitors to develop a connection with the hotel or with the brand as a whole.

By finding the unique aspects of your property, you are able to market the hotel experience to both past and potential guests. For example, the Hard Rock in San Diego uses its core platform of music to customize the experience to its guests. When booking a room, customers note their favorite type of music, and that music is playing in the guest room upon arrival. By engaging guests through their core expertise, the Hard Rock builds their brand as well as the engagement to that brand.

The implementation of loyalty programs, custom offerings and unique experiences continue to drive consumers to purchase at pre-recession rates, because the perceived value of goods received is higher than in 2010. In short, guests will pay a higher price when they believe that they are getting more for their money.

Measurement

As with all business processes, measurement is crucial for evaluation as well as for year-over-year data comparisons. In order to analyze the discount's effectiveness, look at your performance on the STAR Report as a way to track your property's occupancy, ADR and RevPAR performance against your competition. An increased market share or higher comparative occupancy levels can validate your efforts, and an increase in realized profit is a verifiable measurement for success, and it can also point out the effectiveness (or lack thereof) of each pricing tactic.

The advent of social media enables both marketers and consumers to react to sudden fluctuations in market share control and general consumer trends. Social media channels allow hotel marketers not only to gather feedback about consumers visits or promote property events, but also to monitor trends in order to inform the pricing strategy.

While each hotel does not have an on-site revenue management team, every property does need a proactive, targeted plan. Management must anticipate and analyze rate dilution and discounts in an effort to maximize revenue and market share. Using a collaborative approach, working with all departments, including marketing, operations and sales, teams should capitalize on in-depth market knowledge to generate proactive strategies.

Though the economy is improving, rates will continue to fluctuate from year to year. To get back to pre-recession levels, hotels need to be willing to take chances by raising prices and providing creative deals through creating intrinsic value to the customer. If you are having trouble justifying your price increases, revisit your points of differentiation. At the end of the day, it's all about the experience consumers have while at your property that will ultimately impact your bottom line.

Scott Roby, CRME, is the Vice President of Revenue Management for Evolution Hospitality as well as the Chairman of the Revenue Management Advisory Board for the Hospitality Sales and Marketing Association International (HSMAI). Scott has 12 years of experience in the revenue management space and collaborates with property teams to drive total revenue and increase market share. He works with his team to leverage proprietary technology to provide world-class analysis, utilize brand systems and resources to maximize franchise contribution, and capitalize on in-depth market knowledge to generate proactive strategies to avoid rate dilution issues.

Scott has guest lectured on revenue management at San Diego State University and Cal Poly Pomona and is a graduate of the Cornell Hotel School.

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