Managing revenue in a downturn

Serge Chamelian, managing partner, h-hotelier, takes a closer look at crisis management in the first of a two part series

In a down market, many hotel revenue managers strive with how best to manage declining demand and the pressures to reduce rate, which caused hotels to re-examine their rates and the potential value they offer. As a result, too many hotels reduce overall rates only to find that lower rates don't create demand and produce lower overall revenue.

> **"Perceived quality is a central component to any hotel's brand image"**

Pricing is a crucial revenue management (RM) practice affecting both occupancy and RevPAR (revenue per available room). In order for a RM strategy to succeed, a balance should be maintained between simulating sufficient demand to maximize occupancy, while not leaving money on the table in the form of too-low ADR (average daily rate). In the current environment of price transparency, rates/prices take on an even greater role. Thus, suggesting the right rate to a potential customer has become one of the most important aspects of revenue management.

With the world economy going down, hotels felt the pressure to reduce rates to maintain market share, boost occupancy or stimulate demand, and stay competitive (as seen in the graph below). The continued dropping of prices by competitors has created pricing and marketing challenges.

On the one hand, this discounting generated concerns about the impact of discounts on the long-term rate integrity of the hotel and the difficulty that the hotel might face with increasing prices again after an extended period of offering discounted prices.

On the other hand, deep discounts can ultimately affect and deteriorate the brand image of a hotel. Customers make associations between price and quality, and perceived quality is a central component to any hotel's brand image. Therefore, a rate discount negatively affects a hotel's brand. However, many hotels define their brand by bargain prices and a high rate does not guarantee positive brand development.

How do we minimize the depth of the fall? Is rate the answer? If yes, how low does one go in price discounting?

Price is one of many levers; used alone it will do more damage than good.

Price management tips:

- Don't lower your rates - if you do it now, customers get used to it. It's hard to get back the revenue you are expecting as it will take a long time to get your rates up again.
- Optimize the occasions you have (high seasons, exhibitions...) and watch high as well as low demand periods.
- Examine those channels (GDS, 3rd party distribution channels) that have the highest and lowest ADR.

If discounting is damaging to a hotel's brand, and maintaining one static or fixed rate is equally detrimental to RevPAR and occupancy, then the solution lies in variable pricing, modified in real-time to best match demand conditions, also known as dynamic pricing.

This eliminates the possibility or not to engage in across-the board discounting. Instead, the highest rate likely to generate a sale is presented to the right customer at the right time.

The past months and/or year have seen extraordinary changes on account of global economic difficulty. Hotels haven't learned that dropping prices will not recover enough revenues to cover the discounting. These just cause price wars in the long run. Thus, hotels need to adapt and update their RM strategy to profit from the current and future economic climate, by maintaining rate integrity, resisting the urge to discount and holding their brand image and values.

How can hotels manage price during an economic downturn? How do they respond to a price war? What are possible approaches to limit long-term damage? Stay tuned for Crisis Management Part 2 in the next issue to obtain insights on price and non-price methods. ■

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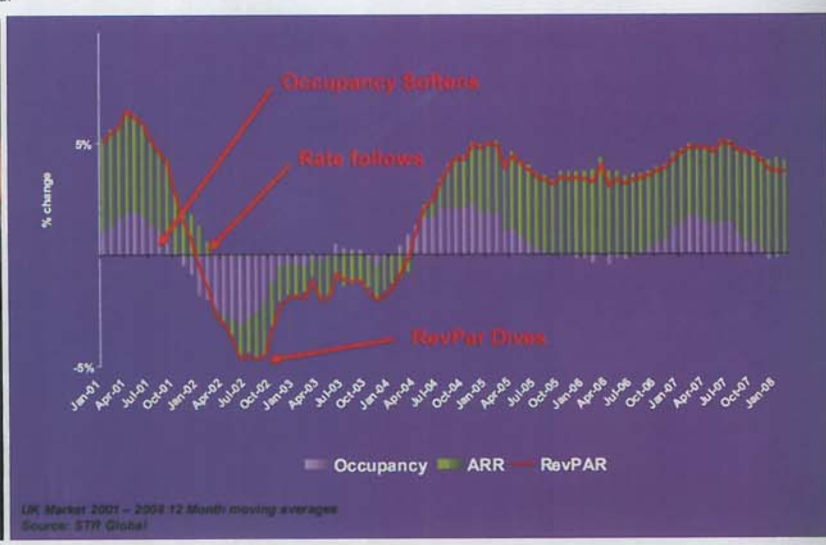

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