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Hotel Revenue Management in an Economic Downturn:

Results of an International Study

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by Sheryl E. Kimes, Ph.D.

Cornell University
School of Hotel Administration

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Rohit Verma, *Executive Director*
Jennifer Macera, *Associate Director*
Glenn Withiam, *Director of Publications*

Center for Hospitality Research
Cornell University
School of Hotel Administration
537 Statler Hall
Ithaca, NY 14853

Phone: 607-255-9780
Fax: 607-254-2292
www.chr.cornell.edu

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EXECUTIVE SUMMARY

The sudden reversal in the lodging industry's fortunes from 2008 to 2009 has brought a renewed focus on revenue and profitability for revenue managers. In a survey conducted in 2009, 291 revenue managers cited concerns about customer rate resistance, contract renegotiations, competition, and price wars as their top considerations. This contrasts with a 2008 study, where human resources and technology issues were ahead of economic concerns. Participants in the 2009 Revenue Management Roundtable, produced by the Cornell-Nanyang Institute of Hospitality Management, concurred with the study's findings. In particular, the meeting participants pointed to the difficulty in maintaining pricing positioning, because the drop in demand has shifted considerable pricing power to the customer. Although many hotels can compete effectively on price (and others may have little choice), revenue managers may also draw on numerous non-price competitive techniques, including adding value. One pricing approach might be to create a set of targeted rate promotions that are protected by rate fences and designed to attract price-conscious guests. Another technique is to bundle services into packages that disguise room rates. Non-price techniques include competing on the basis of quality, creating strategic partnerships, taking advantage of your loyalty program, developing additional revenue sources, and developing additional market segments.

ABOUT THE AUTHOR

Sheryl E. Kimes, Ph.D., is Singapore Tourism Board Distinguished Professor of Asian Hospitality Management at the Cornell University School of Hotel Administration, where she has also served as interim dean (sek6@cornell.edu). In teaching restaurant revenue management, yield management, and food and beverage management, she has been named the school's graduate teacher of the year three times. Her research interests include revenue management and forecasting in the restaurant, hotel, and golf industries. She has published over fifty articles in leading journals such as *Interfaces, Journal of Operations Management, Journal of Service Research, Decision Sciences*, and *Cornell Hospitality Quarterly*. She has served as a consultant to many hospitality enterprises around the world, including Chevys FreshMex Restaurants, Walt Disney World Resorts, Ruby's Diners, Starwood Asia-Pacific, and Troon Golf.

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by Sheryl E. Kimes

The economic storm resulting from financial turbulence and world recession has caused many hotel operators and revenue managers to struggle with how best to manage declining demand and address the pressures to reduce rate. In this unusual environment, I was interested in finding out what revenue management professionals consider to be the most important issues facing RM, how they have changed the way in which they manage revenue, and what they view as the future of RM. Because the economic situation changed considerably since I conducted a similar study in 2008,[1] I thought that a follow-up study was warranted.

[1] Sheryl E. Kimes, "Hotel Revenue Management: Today and Tomorrow," *Cornell Hospitality Report*, Vol. 8, No. 14 (2008); Cornell University Center for Hospitality, www.hotelschool.cornell.edu/research/chr/pubs/reports/abstract-14927.html.

Hotels in nearly all segments in most parts of the world have experienced drops in occupancy, average daily rate, and revenue per available room. Hotel trade magazines and blogs are filled with stories about falling occupancies and price wars.[2] Given that my prior year's study showed that the most critical RM issues were considered to be HR-related, technical concerns, and ways of dealing with economic and competitive environments, I thought it would be worthwhile to see how the economic downturn was affecting the practice of RM. For that purpose, I conducted a follow-up on-line survey of hotel RM professionals throughout the world. I then analyzed the results and drew on past research to develop specific suggestions on how hotels should approach RM during low demand periods.[3]

I presented my preliminary results at the Revenue Management Roundtable, produced by the Cornell-Nanyang Institute, in Singapore in May 2009. Participants discussed the results, and I present selected comments as part of this report. Meeting participants were senior executives from Amadeus Hospitality Business Group, The Ascott Group, Carlson Hotels Worldwide–Asia Pacific, Banyan Tree Hotels and Resorts, Fairmont Hotels, JDA Software Group, InterContinental Hotels Group, Micros-Fidelio Asia Pacific, Millennium & Copthorne International, Raffles Hotels and Resorts, Royal Plaza on Scotts, Shangri-La Hotels and Resorts, and Synxis Asia-Pacific.

The Survey

Eye for Travel, a large organization which sponsors conferences on RM and distribution throughout the world, agreed to assist with the distribution of the survey and sent personalized email invitations to all hotel RM professionals on their distribution list. The survey was posted on February 4, 2009, and by the end of March 2009, 291 completed responses were obtained.

Survey respondents were asked to evaluate eight different issues and assess how the importance of those issues had changed from the previous year, as well as answer questions on how occupancy, ADR, and RevPAR performance had changed at their hotels during the previous year. In addition to collecting demographic information, the survey posed three open-ended questions on major issues, changes, and the future of RM.

Demographic Profile

About a third of the respondents (34%) served in an executive position in revenue management, while more than half (55%) worked as a revenue manager. About 10 percent of respondents worked as analysts or consultants.

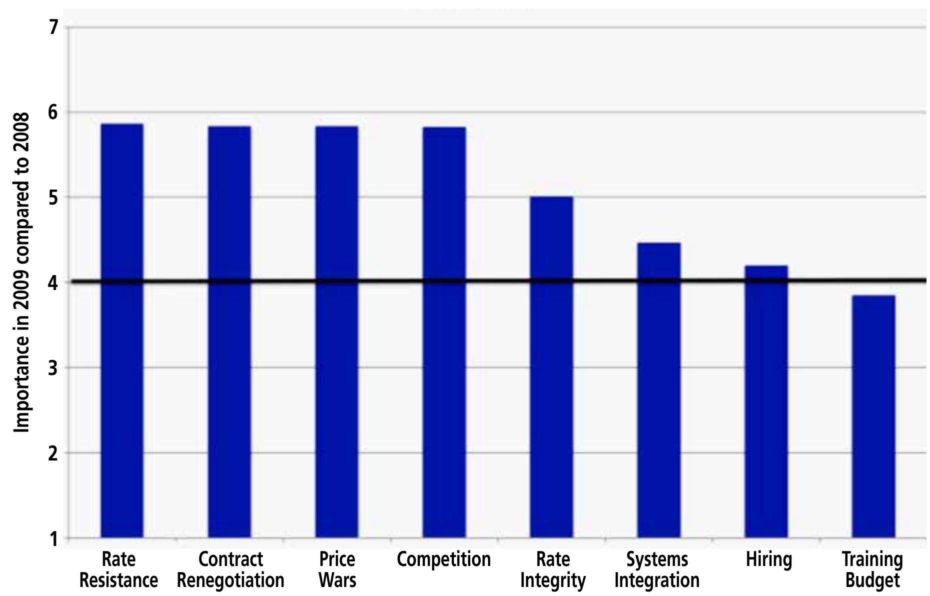
About a third (32%) of the respondents worked in Europe, 37 percent worked in Asia and the Middle East, and 29 percent were from the Americas. Only 5 percent worked

[2] For example, see: www.stuff.co.nz/southland-times/news/queenstown/2413294/Hotel-price-war-ludicrous; www.japaneconomynews.com/2009/06/11/asahi-on-luxury-hotel-price-wars/; www.ft.com/cms/s/0/626ba444-537f-11de-be08-00144feabdc0.html; www.hotelsmag.com/blog/150000415/post/1950043195.html; and www.arabianbusiness.com/554940-mideasts-five-star-hotels-skirt-price-war-on-room-rates.

[3] A variety of articles have been published on competitive pricing and price wars. For example, please see Kent B. Monroe, *Pricing: Making Profitable Decisions* (New York: McGraw Hill, 2003); Robert J. Doland and Hermann Simon, *Power Pricing* (New York: The Free Press, 1996); Akshay R. Rao, Mark E. Bergen, and Scott Davis, "How to Fight a Price War," *Harvard Business Review*, Vol. 78, No. 2 (2000), pp. 107–117; Harald J. Van Heerde, Els Gijsbrechts, and Koen Pauwels, "Winners and Losers in a Major Price War," *Journal of Marketing Research*, Vol. XLV (October 2008), pp. 499–518.

Exhibit 1

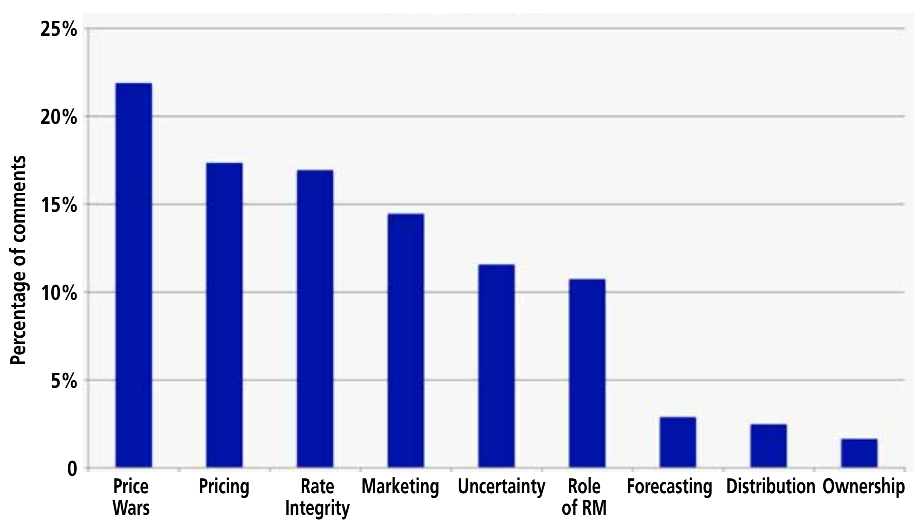
Change in importance of revenue management issues, 2008–2009



Note: 1 = much less important; 7 = much more important.

Exhibit 2

Issues facing revenue management professionals, 2009



in Africa or Australia. The respondents had considerable revenue management experience, with 58 percent having more than five years of experience (and 20 percent having more than ten years). At the other end of the scale, only 13 percent had been working in RM for less than two years. The respondents were highly educated, with 80 percent reporting that they held a college degree. About 30 percent of the respondents held a post-graduate degree.

Deteriorating Financial Ratios

Asked to compare current hotel performance to that of the previous year (on a 7-point scale of 1 = much lower, 7 = much higher), respondents consistently reported that their performance was down from that of the previous year. Occupancy ratings, which did not vary by geographic region, averaged 2.49. Similarly, the respondents' assessment of ADR

Exhibit 3

Representative comments on price wars (from 2009 survey)

Hotels still haven't learned that dropping rates will not recover enough revenues to cover the discounting. These just cause price wars in the long run.
Price war issues. How low does one go? As well as with that a "rates versus perceived services" issue. If one sells too low this may cause damage to a brand's perceived image. Having new or creative ways of "yielding" or selling the property and stimulating "limited" and uncertain demand.
I think the world economic crisis is really making life difficult for the revenue managers, especially with the price wars happening in all the major segments. Till mid 2008, it was a seller's market—at least for the major markets like Dubai and Maldives, which has changed in these last six months. With the world economy going down, people are afraid of spending money on traveling, and companies have reduced their travel expenses. This has forced us to go for lower rates. At the end of the day if you do not lower your rates, you are the loser. It's a challenging time, and whoever can pass through these times will be a winner.
Price wars! Keep your cool and be a price leader *also* in rough times. Your comp. set will follow (eventually).

averaged 2.73, and RevPAR, 2.68. North American and Asian respondents rated ADR and RevPAR as being considerably lower than did respondents from other parts of the world.

Average length of stay and booking patterns. Guests' length of stay was down substantially (2.95), and respondents reported that customers were booking their reservation much closer to their arrival date (average rating of 2.28). Length of stay and booking patterns did not vary by region or education, but respondents with three to ten years of RM experience rated current customer length of stay as much shorter than the previous year, and more experienced revenue managers considered the booking window to be notably shorter.

Change in Importance of Issues

The eight critical issues examined on the survey were competition, contract renegotiations, customer rate resistance, price wars, rate integrity, RM hiring, systems integration, and training budget. Changes in the importance of these eight issues were also measured on a 7-point scale, of 1 = much less important, 7 = much more important.

The top four issues were customer rate resistance (5.86), contract renegotiations (5.84), competition (5.83), and price wars (5.80). Issues that had not changed much in importance during the previous year were training budgets (3.91) and RM hiring (see Exhibit 1). The only demographic or geographic distinction is that European respondents indicated that systems integration was much increased in importance.

Open-Ended Questions

I sorted responses on the three open-ended questions into eight to ten categories depending on the question, as shown in Exhibit 2.

Issues facing RM. Over three-quarters (77.5 percent) of respondents listed critical issues facing them as revenue managers—and pricing stood out as the key issue. This observation stands in marked contrast to the results from last year's study in which respondents considered HR issues to be the most salient (63 percent of respondents), followed by increased reliance on technical systems (13.0 percent), and economic and competitive issues (11.1 percent). Comparing these results, we can infer the deterioration in the hoteliers' economic situation. This concern also surfaced at the RM Roundtable in Singapore. Peter Gebhardt, director of revenue management of The Ascott Group, said, "When you go into supply outstripping demand in the market, [the power] bounces back to the customer." Gebhardt further commented: "Customers are dictating their terms. The tables have turned already. The customer has a lot more clout because we are all struggling to get the business."

Economic concerns also played into the respondents' comments regarding marketing issues (11.6 percent) and on the increased uncertainty facing them (10.7 percent), as follows.

Price wars (21.9% of comments). Faced with price wars, respondents felt considerable pressure to reduce rates to maintain market share and stay competitive (Exhibit 3). Many also talked about how price wars can ultimately affect the hotel's image.

Exhibit 4

Representative comments on pricing (from 2009 survey)

Currently people are more and more price sensitive. The reason is the crisis, but in general RM will become more and more important in all types of hotel and all revenue generating departments within those structures. RM is important during tough times, because you have to react and apply changes quicker than during good times to maximize RevPAR during the peaks or even GOPPAR in general.
Media educating consumers to shop and call the hotel direct to negotiate a better rate. Hotels are desperate for business and even though they know it is not our company policy, they are in many cases doing just that—giving rate lower than what is in the reservation system. Over-supply of luxury hotels. The "AIG effect" on group business.
Revenue managers will have less opportunity to yield the business that comes in to hotels. Pricing will become more aggressive to drive volume and occupancy and we will "take what we can" in the future. The trends that are forming are taken from short-term or limited data, so the accuracy of using them moving forward can be questionable, and the market mix is something we have never seen before which makes forecasting more challenging.
The continued dropping of rate by the competitors in the negotiated and leisure segments have created pricing challenges.

Exhibit 5

Representative comments on rate integrity (from 2009 survey)

First, to continue rate parity policy versus external sources of reservations. Second, to keep or improve service level at our hotels to win loyalty of the guests and their high notes on various internet booking tools. Third, not to panic, not to dramatically drop the prices of contracted corporate agreements nor best available rates of the day due to lowering demand. Fourthly, to scan and focus more this year on e-commerce, we might create a new position. And last but not least, try to keep last year results in terms of revenues and RBE.
Rate integrity—so many tactical offers in different markets, and it's hard to control. Also negotiation for contracted rate or group takes much longer and even for clients ask to review rates again although contract is signed already. Also, RM system does not adjust to reality quick enough, and it's hard to predict the future pattern and plan for long-term strategy.
Maintaining rate integrity and resisting the urge to discount with the misconception that it will increase volume.
Ability to convince owners and GMs to hold rate to protect current and future integrity.

Pricing (17.4% of comments). Respondents talked about the increased price sensitivity of their guests and how price negotiations with certain market segments had increased (Exhibit 4). They also discussed the difficulty of determining the best price to offer and the effect that the offered price would have on driving demand.

Rate integrity (16.9% of comments). Respondents were concerned about the impact of discounts on the long-term rate integrity of the hotel and the difficulty that the hotel might face with increasing rates again after a prolonged period of offering discounted rates (Exhibit 5). On the other hand, hotel operators have faced the prospect of losing business if they don't change rate structures. At the RM Roundtable, Jos Weejes, vice president distribution, marketing and revenue management, Asia Pacific, of the InterContinental Hotels Group, cited a case where a Korean customer recently negotiated an account of 4,500 room-nights. The customer sought a 10-percent discount on IHG's current pricing, but the firm's revenue management strategy was to hold on to average daily room rate to the extent possible. IHG lost this longstanding account. The point of this anecdote is that the customer cared more about the price than the brand value that IHG represents.

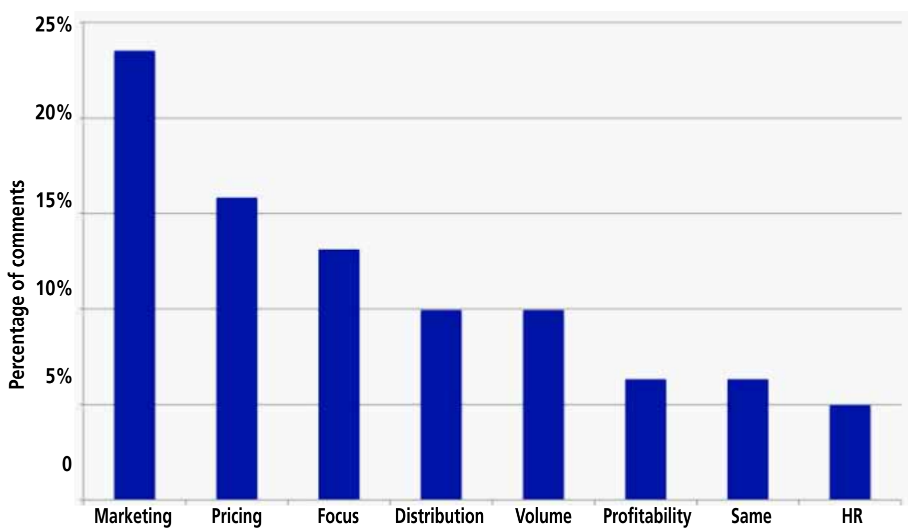
Exhibit 6

Representative comments on marketing concerns (from 2009 survey)

Given the current and expected economic situation, a major issue will be how to maximize revenues in situations where properties are not always full. Of course looking for new channels will be important, and perhaps introducing new very low rates. Just as important at least will be the ability to determine what price or prices to charge to maximize revenue on any given night, whether or not this price is one that fills the property.
Now with the economic crisis, we see a drafting for small meetings, less time and money spent in hotels. So as RM we must be careful on how and when we change rates, and always keep a close eye on the competitive set. As we experience less demand in the market, we cannot afford losing our market share.
In the past two quarters an increase in group business has made up for our decrease in leisure business (almost one to one). This trend is slowing now, and the group business is now also slowing. We see the upcoming year as being a challenging one for both group business and leisure. We are focusing our attention on business less affected by the economy (i.e., government groups). For leisure guests, we are focusing specific campaigns by season or segment more so than ever before.
Maintaining market share. We understand travel is going to be down in all markets. Our biggest or most important challenge is making sure we still capture our high market share. In YVR our December RevPAR and market share was 170 percent of our comp. set.

Exhibit 7

Changes in revenue management, from 2008 to 2009



Marketing concerns (14.5 percent of comments). In particular, hotels need to identify new market segments and new distribution channels to help maintain volume and market share (Exhibit 6).

Recent Changes in Revenue Management Practices

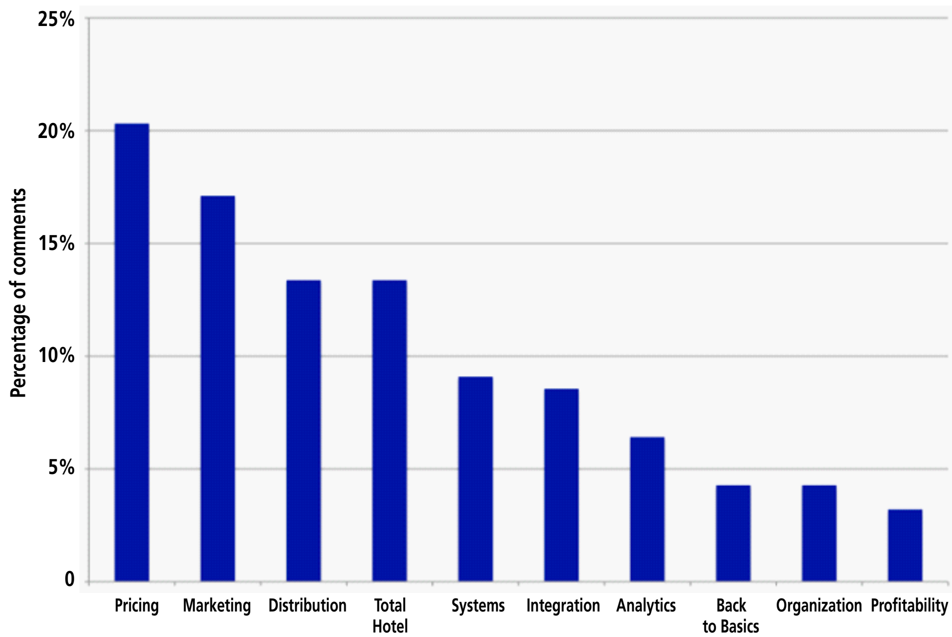
The increase in marketing-related activities (23.5 percent) was the topic mentioned most frequently by the 70.2 percent of respondents who commented on the changes that they had noted in their RM practices during the previous year. Pricing was identified as the second most important change (15.8 percent). Other noteworthy changes included an increased focus required for revenue managers (13.1 percent) and the increased role of distribution channel management (10.0 percent). (See Exhibit 7 and the appendix at the end of this report.)

Future of RM

Pricing (20.3 percent) and distribution (17.1 percent) dominated the responses of the 62.6 percent who identified future trends in RM. Also on the agenda, according to these

Exhibit 8

Future of revenue management



respondents, total hotel RM (13.4 percent) and marketing (13.4 percent). These results provoked pointed comments at the RM Roundtable in Singapore. Han Ju Yeon, of Raffles Hotels & Resorts, summarized the matter as follows: "Attaining rate parity at the moment is difficult. Rate integrity is easy if you have a clear strategy to maintain it. However, the economy is changing so fast it's hard to control dynamic pricing along with changing management strategies." A number of respondents also commented on the increased role of RM systems (9.1 percent) and how they believed that RM would be integrated with other departments within the hotel (8.6 percent, Exhibit 8). Again, these results stand in marked contrast to those obtained in my previous study, where respondents felt that there would be an increased reliance on technical systems (30.7 percent), more of an emphasis on total hotel RM (29.7 percent), and an increased emphasis on HR issues (14.9 percent; see the appendix for representative comments).

What Should Hotels Do?

Given revenue managers' concern about pricing-related issues, let's examine how hotels can manage rates during an economic downturn. Even before the current recession, this topic provoked a variety of articles and books.[4] I have synthesized the findings of these studies with the goal of developing a concrete set of guidelines that can help hotel managers navigate through a price war.

An eye on the competition. One key approach is to maintain your price positioning relative to your competitive set. A series of studies recommend that you keep your ADR near or above the average of your competitive set. These studies have found that hotels with an ADR substantially lower than that of their competitive set have a comparatively inferior RevPAR performance.[5] This relationship has been shown to hold true across all hotel market levels. For example, in the luxury market, hotels that have an ADR that is higher than their competitive set have the same or slightly lower occupancies, but have a 8- to 14-percent higher RevPAR than their competitive set. Conversely, hotels that have a lower ADR than their competitive set have about the same or slightly higher occupancy levels, but report

[4] For examples, see the articles listed in the previous footnote.

[5] Cathy Enz, Linda Canina, and Mark Lomanno, "Why Discounting Doesn't Work: The Dynamics of Rising Occupancy and Falling Revenue Among Competitors," *Cornell Hospitality Report,* Vol. 7, No. 4 (2004), www.hotelschool.cornell.edu/research/chr/pubs/reports/abstract-13599.html; Linda Canina and Cathy Enz, "Pricing for Revenue Enhancement in Asian and Pacific Hotels: A Study of Relative Pricing Strategies," *Cornell Hospitality Report*, Vol. 8, No. 3 (2008), www.hotelschool.cornell.edu/research/chr/pubs/reports/abstract-14684.html; and Linda Canina, Cathy Enz, and Mark Lomanno, "Competitive Hotel Pricing in Uncertain Times," *Cornell Hospitality Report*, Vol. 9, No. 10 (2009), www.hotelschool.cornell.edu/research/chr/pubs/reports/abstract-15087.html.

RevPARs that are 3- to 9-percent lower than their competitive set.

With the idea of an average rate in mind, one approach in a down market is to avoid offering across-the-board price cuts, but to instead focus rate adjustments on particular market segments and distribution channels. Faced with a price war, you should assess three factors: (**1**) your current and potential guests, (**2**) your hotel and your competitors, and (**3**) your distribution channels.

Your customers. Customer issues that need to be assessed are the price sensitivity of certain market segments and the possibility of attracting different consumer segments if new rates are offered. In that context, targeted rate reductions should be protected by rate fences to aim at specific, price-sensitive market segments but to prevent customers who are willing to pay more from availing themselves of reduced rates. In addition, the hotel should identify other potential market segments which might be attracted by a specific rate category and determine whether it is a market segment that fits in with the hotel image.

Your hotel and your competition. Discounts are affected by the hotel's cost structure, capabilities, and strategic positioning. Hotels with a lower cost structure than their competition can more profitably offer discounts since they may be able to withstand the reduced margins. In addition, the type of hotel matters when one is setting rates. Luxury or upscale properties should exercise great care with rate manipulations because of the potential for damage to the hotel's long-term image. Conversely, budget or economy hotels may not be as affected by a price war because they may benefit from customers trading down from more upscale hotels. In that case, the economy hotels' reduced prices could reinforce their image of offering better value.

The same analysis should be conducted for your competition so as to gauge their potential response to a price war and to determine their strengths and vulnerabilities.

Your distribution channels. In addition, the hotel's distribution channels should be assessed to determine which ones are most effective at delivering business. Hoteliers should determine whether the volume sold would increase if the commission percentage were increased. Actual room rates can be obscured by using opaque distribution channels and those that offer packages in which rooms are bundled with other services such as airfare and rental car.

Some Possible Approaches

Because many hotels find themselves in a price war, I want to examine ways to compete on price without suffering long-term damage. While direct rate manipulation is almost unavoidable, you also can employ non-price competitive approaches.

Non-price Methods

The following are six non-price competitive methods: (**1**) reveal your strategic intentions, (**2**) compete on the basis of quality, (**3**) create strategic partnerships, (**4**) take advantage of your loyalty program, (**5**) develop additional revenue sources, and (**6**) develop additional market segments. Each will be discussed in more detail below.

Reveal your strategic intentions. Let your competitors know what you're planning on doing and operate from a position of strength. If you have lower operating costs or if you have deeper reserves that will allow you to withstand a prolonged price war, let them know it.

Compete on quality. If you are operating in the luxury or upscale segment, you may want to emphasize the quality that your hotel delivers and perhaps even add features that add additional value to your offerings (such as personalized stationery, free airport pickup, or fresh flowers).

Another tactic may be to highlight the performance risks associated with lower-priced hotels. For example, you could mention the lower service levels and reduced amenities that are provided by your less expensive competitors and contrast that to the superior service offering of your hotel.

Create strategic partnerships. Another approach is to create strategic relationships with particular distribution channels. If you give certain distribution channels a higher commission (whether travel agents or third-party intermediaries), they may be willing to deflect a higher proportion of their business to you. Your costs would go up, but you would not need to cut rates.

Focus your loyalty program. Reduced demand can also provide hotels with the capacity needed to reward members of their loyalty programs. The number of points needed to redeem a free night's stay can be reduced for a limited time or availability of more desirable rewards can be increased. Doing this has the following two benefits. First, it brings people into the hotel and opens the likelihood that they will spend money in other outlets. Second, it keeps loyal guests connected with the hotel.

Develop additional revenue sources. Full-service hotels have a variety of facilities that can be used to generate much-needed revenue. While some of these facilities (most notably, food and beverage) have lower profit margins than rooms, they can still provide additional cash which can help sustain the hotel during low demand periods. Creative promotions and discounts may bring more local customers into the restaurants and recreation facilities.

Develop additional market segments. An economic downturn is a good time to carefully examine your marketing plan and determine whether there are other small or price-sensitive market segments which can be developed for your hotel. While this can bring in additional revenue and

Exhibit 9

Common rate fences

Rate Fences		Examples
Room-Related	*Basic product*	Room type
		Room location or view
		Room furnishings (e.g., linens, bed, ipod player)
	Amenities	Free breakfast, airport pick up, etc.
		Toiletries
		Valet parking
	Service level	Priority check-in
		Dedicated service hotlines
		Personal butler
Transaction Characteristics	*Time of booking or reservation*	Discounts for advance purchase
	Location of booking or reservation	Guests booking rooms from different countries are charged different prices
		Customers making their reservation on-line are charged a lower price than those making a reservation by phone
	Flexibility of reservation	Fees or penalties for canceling or changing a reservation
		Non-refundable reservations fees
Consumption-related	*Time or duration of use*	Minimum length of stay
		Saturday night stay
	Location of consumption	Price depends on departure location, especially in international travel
		Prices vary by location (between cities, city center versus edges of the city)
Guest-Related	*Frequency or volume of consumption*	Member of certain loyalty-tier (e.g., platinum member) get priority pricing, discounts or loyalty benefits
	Group membership	Child, student, senior citizen discounts
		Affiliation with certain groups
		Corporate rates
	Size of customer group	Group discounts based on size of group
	Geographic location	Local customers are charged lower rates than tourists
		Customers from certain countries are charged higher prices than those from other countries

customers for your hotel, care must be taken to ensure that the new market segments fit in well with your brand image.

Price-based Methods

If you must enter a price war, at least do it strategically. The key is not to institute across-the-board rate cuts but instead to either camouflage your discounted rates or target those rates at selected market segments or through certain distribution channels. There are several approaches you can take.

Bundle services. If you can create a package that bundles a multiple-night stay (e.g., stay two nights, get another one free) or bundle the room with other services at the hotel (e.g., spa treatment, wi-fi), it will help disguise your room rates. Restaurants and cruise lines have successfully used this approach for years. Restaurants offer *prix fixe* meals or "value meals" in which several courses are offered for one price. Cruise lines have also used bundling effectively when they package the cruise with airfare and a hotel stay before or after the cruise. Bundling makes it difficult for customers to determine the prices of the individual components.

The key to developing an effective bundle is to determine what customers want and then deliver it in a profitable manner. Most full-service hotels' facilities are not fully used (e.g., a spa, a golf course, restaurants). By including some of the facilities with availability capacity with the room rate, the hotel does not incur a great deal of incremental cost, is able to more fully use other parts of the hotel, and has the potential to increase business in these other outlets in the future if guests decide to come back.

Unbundle rooms. Another approach is to base your rate on only your core room product and charge additional amounts for any other services that guests might wish to use. Low-cost airlines have used this approach successfully, and many hotels use this approach for some or all of their services. By unbundling, you can offer modest base rates and allow guests to choose which additional services they would like. Although care must be taken when using this approach because of the potential for diminished customer satisfaction, unbundling is a good option for hotels that appeal to some market segments.

Use opaque distribution channels.[6] Opaque distribution channels such as priceline.com and hotwire.com allow a hotel to reduce rates while hiding the discount from the customer. They allow hotels to sell additional rooms while still protecting rate and brand image.

Offer targeted rate cuts. Discounted rates should be offered to selected market segments. Building effective rate fences that limit the discounts to specific customer segments is key to an effective discounting strategy. By setting appropriate "rules" to qualify for a particular rate, you can encourage purchases by some market segments, while you prevent other, less price-sensitive customers from taking advantage of the lower rate (and also protect the hotel against potential cannibalization).

The four types of rate fence are room related, transaction related, consumption related, and guest related. To be able to develop good rate fences, a hotel must know its customers well and understand what types of rate fences will be effective in attracting particular market segments. In addition, fairness and rate-parity issues must be considered. Common rate fences are listed in Exhibit 9.

Pricing Concerns

Pricing issues came to the fore in this 2009 survey of nearly 300 revenue managers from around the world. The findings reflect the pressure on rates and market share from the current economic downturn. Many hotels are reducing rate in an attempt to retain market share and attract additional customers. The results of this study are different than those of a similar study that I conducted just a year earlier, which showed that HR issues were considered to be the most important concern facing revenue managers.

While the pressure to reduce rate is understandable, hotels should exercise caution in manipulating rates because of the potential negative long-term effects on profitability and the hotel's image. This report has outlined several methods, some involving prices and some not, which hotel revenue managers can use to successfully survive the economic downturn. Summarizing this issue, IHG's Jos Weejes said, "It's an amazing time to be observers. True leaders will survive. To optimize revenues in a downturn and make the decisions that have to be made, that is where the leaders will stand out."

The goal of revenue management is still the same, to maximize revenue. In the current environment, the drop in demand has made RM into a challenging proposition. Revenue managers should concentrate on the fundamentals and remember that RM is about selling the right room at the right price at the right time. ■

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[6] See: Chris Anderson, "Setting Room Rates on Priceline: How to Optimize Expected Hotel Revenue," *Cornell Hospitality Reports,* Vol. 8, No. 4 (2008), www.hotelschool.cornell.edu/research/chr/pubs/reports/abstract-14705.html.

Appendix

Representative comments on changes in revenue management

Marketing	We've changed our approach to be a lot more blatant in communicating the value we offer. It's not enough to simply use the pricing to communicate the value and positioning. The market is receiving a flurry of messages now from hoteliers, and it is ever more important to communicate our brand and value in a direct and simple manner. Hoteliers have been more receptive towards lowering rates. Although that is not an ideal reaction from a yield management point of view, as the argument is that once you lower it's difficult to increase. But it's more important to ensure that despite lowering rates, you maintain a premium against your comp. set rates to communicate your positioning and value. RM professionals are more flexible and trying to be more nimble across channels and market segments. Previously, was a lot more complacent as market was growing and could ride the upward wave.
	I still maintain that I can grow ADR and endeavor to do this, by strategically targeting specific segments. I have 30 hotels; the challenge is that there are still those properties within our respective comp. sets that feel they can steal share through rate reductions. (It's value, stupid!) But to remain competitive we need to be cognizant of how the market is changing around us.
	Year-over-year comparisons are not as meaningful in forecasting and goal setting so we have shifted focus on pace as compared to budget rather than last year. Conversion through all channels and demand capture are looked at daily now and mix management and rate efficiency are not.
	Continuous focus on market development and competitor rate changes.
Pricing	Direct consumer pricing policy has been changed for our properties. Basically, with the demand going down and with price wars happening, we had to restrict ourselves from selling lot of rack and rack-discounted high-yield rates and make the best available rates available for direct consumers. I think with the current economic situation, we need to be more proactive than one year back—especially with the competition rates as customers are becoming more and more price sensitive. The worst part is you are not even competing with high-end hotels that are going for price reduction. You are also competing with low-end hotels which are becoming a preferred choice for many consumers booking hotels based on lower rates.
	Important to keep pricing integrity and not lower prices in public pricing to prepare for bounce back. Go after opaque OTAs to tap into other markets. Diversify and go after segments not considered before. Go after group business at price points not considered before to build base critical for yielding. Negotiated more corporate accounts and lower price points to secure contracts
	Introduced dynamic pricing as opposed to brochure price with discount. This has been the fruit of a two-year evaluation into changing our approach to revenue management to prove that best available rate works—one price available to all at one point in time.
	We practice flexibility in picking up business between various price points now. Laying emphasis on cost-based pricing for ancillary areas and tightening revenue leakages.
More Focused	Analyzed booking pace and stats show that corp. is booking on a much shorter lead time. CEOs and presidents are booking lower categories compared to previous stays, where they at least stay in jr. suites. Hence, I take measures to ensure I am able to capture these requests to max occ.
	2008 was a record-breaking year for us, one that will be hard to top. It was our first year with a dedicated revenue manager and this proved valuable. This year, we will focus on the balance between rate and occupancy, and we have revamped our yield system in order to make the most of every opportunity (yielding by room-type occupancy rather than overall occupancy).
	What I used to review on a weekly basis, I now review almost daily. I am constantly looking at how my competitors are positioning themselves across all channels.
	Bask to basics—focusing on competitors' pricing strategies, more focus on proactive sales and guidance to sales teams.
Distribution	Yes, we have had a strong market share. We are now more open to lower rated travel business (i.e., priceline and hotwire, We've *never* worked with them before. I'm working with sales to be more aggressive to help us capture market share. In previous years I would work with sales to sell more higher rated room categories in their groups to get more revenue. Now we look closely at what they need the rate to be to get the business.
	Revenue managers have been given much more intense training on managing distribution channels and inputs to help in demand generation via e-distribution channels.
	Stronger reliance on OTA: as a 4-star with no brand recognition and product inconsistency (+old), with a new ownership, I need to have a different strategy per channel of distribution, hence display lower pricing (+amenity in) on OTA, and a different strategy per OTA as each of them has a particular competitive advantage. I am much more focused on groups.
	More integration with other websites, bigger spread of distribution networks, more focus on electronic marketing.

Appendix

Representative comments on the future of revenue management

Pricing	Bundling of rates with other services in the hotel (i.e., not just the usual bed and breakfast deal), having one package price for everything the guest may need during his stay.
	More of our market is doing everything they can (e.g., pricing and promotion) to help encourage early booking behavior in customer segments that in the past generally had a very narrow window. They're doing this because there is no reliability in the strength of the group business that has been contracted, and this causes great uncertainty in pricing and yield. Also, due to the weakening economy, competitors are spending a tremendous amount in opaque channels and other areas (bundling, etc.) to help disguise rock bottom rates or create the perception of value in the eyes of the customer. All of these circumstances will continue for the majority of the year.
	Zero brand loyalty, customers buy on price.
	Lots of discounting, whether it's a super low rate or buy so many nights and get so many more for free, and other value adds—all actions eroding ADRs built up since 2001. While group business has slowed, sales teams are forced to look into other markets that may not bring as many room-nights or require a loser type on contract with less penalties and more giveaways.
Distribution	I still think the web is the latest trend. I know a lot of RMs talk about it, but now I truly think RMs are getting a better understanding of e-marketing, pay-per-click campaigns, and search engine positioning and RMs are turning into "e-revenue managers."
	Use RM systems to enhance RM professional capabilities. Use a multi-channel strategy—in particular moving to the online arena—to gain yield. Receptiveness towards online channels is increasing as they are more reactive than wholesalers. Greater move towards channel aggregators to facilitate ease in inventory availability. Many IMMs moving to Pegasus or being compatible to EZ Yield. They have stopped resisting using these tools.
	Greater focus to online distribution, along with rate and room parity now being a requirement from channels rather than a request.
	Third-party channel wars (promotions, heavy discounting); getting deeper in bed with the devil (third-party channels).
Total Hotel	Total revenue management, instead of main focus on room revenues only. But also including all customer touch points (more marketing than RM, but each touchpoint has the opportunity to either create awareness of products and services, or make a sale).
	Total revenue management (i.e., not just rooms but maximizing revenues from all possible areas). Valuing customers and customer segments based on their overall worth and value and not just based on the room rate they pay for their next stay. Understanding the enterprise value of a customer or customer segment. CRM and revenue management—being able to market to individuals. Customized products and talking to the right consumer in the "language" he or she knows.
	Total revenue management encompassing all revenue streams, rate fencing, website optimization.
	Total hotel yield. It's about trends, data, charts, numbers. e-SOB, and finally the strategies. I personally think the market is sometimes going in the wrong direction, and, hence, I lead my team, at times, against "latest trends." Sorry, I am not too much influenced by latest trends and, hence, may not know enough about it to comment.
Marketing	Revenue management trends are focusing on the enhancement of the value and away from pure price. From a CRM perspective, we are moving our loyalty program away from behavioral loyalty to attitudinal loyalty and rewarding the guests with status rewards rather than pure discounts.
	Personalization—guests want to feel special, and for the first time in a long time have the power to demand such. Products, services, and marketing must be more personalized. Social media are the future of hotel marketing. Twitter, FaceBook, etc. must be properly used to set hotel apart from the crowd. Simply having a Twitter page isn't enough. You need to properly use it. Generation Y is at the forefront of technology...who will win in the quest for their business?
	Value adding appears to be a popular trend within our comp. set. This helps us all to maintain rate.
	Online internet marketing and its significant contributions to the hotel's long term advantages, more personalized touch required besides the rate and occupancy considerations and towards a more total revenue management concepts, particularly on spa and others promo tie-ins (e.g. with shopping complexes and major attractions incentives).

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