

Successful Front Office Upsell Incentive Programs - By Neel Lund

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Guide to a Successful Front Office Upsell Incentive Program

J. Marriott Jr., a foremost member of the hospitality industry, proclaims, "Motivate them, train them, care about them, and make winners out of them. They'll treat customers right; and if customers are treated right, they'll come back." A well-organized Upsell Incentive Program within Rooms Division can exemplify virtually every sentiment conveyed by J. Marriott Jr. The essence of the program revolves around front office agents posing a simple question to the customer: "Would you like a better room?" A positive reply can yield added value to the customer's lodging experience, as well as prove lucrative for the employer and employee. Financial benefits aside, the program can also engender a confident departmental culture predicated upon knowledge of the product and its consumer. This article intends to: First, explain the underlying principles of "Upselling" and exhibit optimal lodging market segments for its utility. Secondly, dissect the benefits, pitfalls, and training associated with an Upsell program. Lastly, based on the conclusions drawn from the analysis, create a model Upsell contract between employer and employee that entails regulation to maximize the benefits and minimize the pitfalls. Since Upsell programs remain internal and specific to each hotel, the details and results associated are proprietary and protected under corporate domain. Hence, due to the limited availability of data specific to Upsell programs, testimonials and studies conducted in regard to incentive programs in general are drawn upon. Furthermore, having orchestrated and participated in successful Upsell Programs at multiple properties of a prominent luxury brand, this author can personally detail insights in attaining practical conclusions.

What is a Front Office Upsell Incentive Program?

Upselling guests at the front desk directly relates to room availability at the time of check-in. As an example, a guest arrives at the front desk with a reservation for a Moderate category room at rack for \$250 per night for three nights. If there remains availability for an unreserved, clean Executive suite valued at \$1500, the agent has an opportunity to propose an upgrade. By standard definition, Upselling a product simply warrants the proposal of a higher category than the one reserved. However, Front Office Upsell Programs differ in that the agent has the autonomy to discount the rate of the suite when an opportunity is recognized. Thus, the agent can offer a compromised rate of \$1000 per night. If the guest accepts the proposal, the additional revenue created would be \$750 per night or \$2250 in total.

Management generally constructs the amount of discount allowed in an attempt to protect rate integrity and levels of aggregate average rate. At any other time besides check-in, the guest must be quoted rack rate. Generally, either "floor rates" or a "minimum premium" amount from base category are established. Floor rates involve establishing a minimum amount for the type of suite that can be sold. For example, the Executive Suite valued at \$1500 could be sold at a minimum of \$850. Minimum premiums involve establishing additional amounts from a base room category to various higher categories. For example, the minimum amount for an Upsell from a Moderate category to an Executive suite category could be an additional \$600 per night. The latter method can prove to be more complex as the base rate or category from which a guest is upsold can differ, thus warranting establishment of premium amounts from each category. Michal Katz, Front Office Manager of the St. Regis New York, maintains that when Upselling, rarely are guests offered upgrades at rack rate. Thus, given the range, the responsibility of offering a feasible rate acceptable to the guest, lies solely on the discretion of the agent. Based on the total revenue created by the Upsell (\$2,250 in the example utilized), agents are compensated with a percentage of the gross, generally varying from 5% (\$112.50) to 10% (\$225). Consequently, it remains in the agent's interest to gauge the spending threshold of the guest, and offer a rate as close to rack as possible.

Example	
Number of Nights	3
Base Rate	\$250
Suite Rate	\$1,500
Floor Rate	\$850
Upsell Rate	\$1,000
Differential	\$750
Total Upsell Amount	\$2,250

Employee Commission	
Commission Rate	10%
Total Upsell Amount	\$2,250
Total Commission	\$225

Who and when do you Upsell?

Two facets remain integral in Upselling a guest: knowing your product and knowing your consumer. When presenting the guest with a costlier alternative, one must convey knowledge of room types and the amenities included. Transient guests, large families, and guests celebrating a special occasion remain ideal Upsell candidates. Furthermore, guests might not be aware of the room categories available, especially when reservations are made by a third-party (travel agent, assistant, etc.). Recognition of such guests with disposable income remains critical. The types of credit cards guests utilize can be an excellent indicator. Liz Moyer, Forbes Magazine writer, states, American Express Centurion cardholders incur "an annual fee of \$2,500 and a minimum annual purchase threshold of \$250,000. A miser like Ebenezer Scrooge wouldn't necessarily want that. A spendthrift, however, might find it a great." Since the "field for elite credit cards is growing," recognition of such opportunities can yield benefits. ² However, not every guest with high spending limits presents an opportunity, as one must remain sensitive to guest motives for traveling.

Which lodging segment provides the most amount of opportunities?

Upscale to luxury brand lodging segments remain ideal for installation of Upsell programs. In fact, the type of clientele a hotel caters to, directly impacts the success of an Upsell Program. Smith Travel Research finds this segment to have achieved the highest demand growth of approximately 2.0-2.5% and a rate growth of approximately 9% in 2006. In addition to the various room types offered by luxury properties, the vast differences in rates from category to category provide ample opportunity to create significant Upsell revenue. Ideally, the upsold room should at least garner the rate of its preceding room category. Despite the forecasted increase in supply, the luxury segment should continue or surpass the current rate of demand growth. Ernst & Young's recent analysis of the lodging industry attributes the healthy demand forecast to the anticipated retirement of affluent baby boomers. Coupled with an increase in travel and their relative lack of sensitivity to price, baby boomers should contribute heavily to leisure luxury travel.

Luxury Hotels In New York City				
	Mobil Rating (Stars)	Upsell Program	Percentage Commission for Employee	Significant to ADR/Monthly Rooms Revenue?*
Four Seasons Hotel	5	Yes	10%	Yes
Mandarin Oriental	5	Yes	N/A	No
St. Regis	5	Yes	5%	Yes
Ritz Central Park	5	Yes	10%	Yes
Peninsula	4.5	Yes	N/A	Somewhat
The Carlyle	4.5	Yes	5%	Yes
The Pierre	4	Yes	10%	No

*Characterized per the Front Office Manager of the Respective Property

N/A= Data Not Provided

Benefits

Consumer: An Upsell program affords guests an opportunity to experience a hotel's larger room or suite categories at non-standard rates. Based on the acquired affinity for the accommodation, guests may be inclined to reserve the room at rack, as the Upsell program is solely based on availability. As mentioned, especially in luxury properties, a third party generally makes reservations on behalf of the guest. Thus, offering available room types upon availability, allows the guest to gain familiarity with the property in experiencing rooms more luxurious categories.

Financial: In order to calibrate the financial significance of an Upsell Program, its contribution to average rate and its percentage of total rooms revenue must be examined. Since average rates for a hotel vary from city to city, a \$30,000 monthly group Upsell total might be extremely significant in Scottsdale, but negligible in Manhattan. A luxury hotel (confidential) in the New York market accrued over 1 million dollars in Upsell revenue for 2006, contributing roundly nine dollars to the average rate. In fact, the same brand has properties within North America where Upsell revenue accounts for approximately 1.50% of total Rooms revenue. Though the percentage amount seems marginal, a \$100,000 team monthly total can certainly absorb the cost of labor for two Front Office agents. As noted, the financial data to examine the full extent of the program's effectiveness remains limited due to its proprietary nature. However, a prime example of the value created by incentive programs can be found in the Travel Agency segment. Sabre Travel Network launched "Hotel UpSell" in February 2006, a merchandising tool that adds value by prompting travel agents to offer higher priced packages and rooms upon availability. Unlike Front Office Upsell Programs, travel agents are not able to discount rates, however, the tool allows information regarding various room categories for properties affiliated with Accor, Carlson, Fairmont, and Intercontinental brands among others. Sabre originally launched this feature for 1,700 properties, however due to demand and revenue growth, the number has increased to 5,000, and is anticipated to exceed 6,500 by the end of 2007. As Jeff Flater, Assistant VP of Resort Marketing for Hyatt Hotels, states, "agents Upsell and they tend to be used by higher-end luxury travelers, and that is why the yield is so good."

Incentives and Motivation: Michal Katz states that apart from the financial benefits through commissions, motivation levels in general certainly rise for Front Office employees. In an article published by HVS Executive search, James Houran and Keith Kefgen conducted a study that found "monetary incentives improved task performance by 23%, while social recognition and feedback elicited 17% and 10%, respectively." The authors expound on the examination by finding the combination of all three elements "improved performance by 45%." ⁸ Hence, despite the financial incentives provided by an Upsell Program, recognition of achievements would ameliorate results. Publishing monthly Upsell figures for the group as well as individual agents would be a form of feedback in allowing agents to gauge performance. In fact, Katz has implemented a "Star of the Month" award at the St. Regis New York. Additionally, being a "star" Upseller truly correlates with one's competency in the agent position. One must possess knowledge of room types, command and awareness of the room inventory, intuition in regard to guest needs and expectations, and finally interpersonal skills to successfully articulate

added value to the guest. With the autonomy to discount rates, Front Office Agents effectually practice virtues of yield management in a live circumstance. For example, with ample availability agents would quote rates closer to the minimum, where as rates closer to rack would be quoted in a limited availability circumstance. The confidence that stems from such skills can lead to employees Upselling the hotel without the financial incentives. "Of all hotel departments, it is perhaps easiest to identify new sales opportunities for the front desk," states Douglas Kennedy, an authority on the hospitality industry. Fostering an Upsell mindset, can lead to agents securing return reservations at departure, and generally probing guests for their satisfaction levels. Such practices can lead to the formation of fruitful guest relationships, with continual repeat visits.

Avoiding Pitfalls

Guest Perception: A primary reason for not utilizing an Upsell program could be that guests might take umbrage at Upsell offers, as the brand might be construed as being far too aggressive in achieving additional revenue. The verbiage utilized when Upselling remains especially delicate, and requires training. A luxury property creates certain expectations of sophistication and grace, and selling an alternative at check-in should be conducted with the same spirit and demeanor.

Repeat guest expectation: As noted, one benefit of the Upsell program involves the fostering of relationships with guests, which in turn facilitates repeat visitation. However, it is essential that guests understand they cannot expect to be upsold for a discount on every visit. A method in avoiding the pitfall would be simply prefacing the "pitch" with the phrase: "based on availability I can offer this suite at a discounted rate..."

Rate Integrity and Abuse of the Program: With front office agents having the ability to discount rates upon availability, average rates for certain room types can fall below published rates. Patently, the latter result remains far more appealing than a vacant specialty suite. Thus, the Revenue Manager must instill floor rates or minimum premiums, and enforce adherence. Some hotels only allow Upsells to rack rates, and thus entirely avoid the rate integrity issue. The Upsell totals via this method might actually compete with ones accrued from discounting rates, as the lack of frequency is made up by the amount of an average Upsell. However, via this method, the program does invalidate the benefit of allowing guests the opportunity to "try-out" larger rooms and suites at non-standard rates.

Management must be responsible in enforcing the "based on availability at check-in" ideal of the program. Rates should never be discounted prior to arrival as an Upsell. Additionally, the first rate quoted should always remain the last rate quoted, as negotiation of rates as part of an Upsell should be nullified.

Limiting Affect on other departments: Once again, the underlying premise of an Upsell Program revolves around availability at the time of check-in. Thus, the Housekeeping department must not be encouraged to clean an Upsold room, as the room should already be clean and unreserved upon check-in. Ideally, the in-house reservations department should also have an incentive program to curtail any natural resentment that could arise or Front Office employees accruing commissions from Upsells. As noted, Sabre's Hotel Upsell feature has grown rapidly as third party travel agents realize higher commissions for higher valued bookings. An analogous program financially rewarding reservation agents for specialty suite bookings is appropriate.

Upgrade upon availability programs: Marcel Thoma, Front Office Manager of the Carlyle Hotel New York, deems partnerships with American Express Platinum Fine Hotels and Resorts and Virtuoso to be a significant hindrance to Upsell Programs. When guests affiliated with the latter two programs make reservations, the amenities include, "a one category upgrade upon availability." Hence, in order to counter lost revenue, hotel management must be stringent in enforcing "the one category" rule, Upselling any further upgrades guests demand.

Training

Rick Swig, a 22-year veteran of the hospitality industry, states, "training is a critical issue, as quite often when an Upsell initiative is undertaken, there is the assumption from management that the responsible associates know the vision, mission, and strategies for the program." Hence, Upsell training should be part of the initial Front Office Agent-training package. Douglas Kennedy states, "during times of austerity and cost containment, all too often one of the casualties to budget cut-backs is sales training." This line of reasoning remains erroneous, as a well-trained Upseller in times of abundant availability would aggressively identify opportunities in creating additional revenue for the hotel. As established, the results remain large enough that a significant Upsell total can be the difference in achieving monthly budget goals.

Training should involve the following topics:

Know your product (Room Types and Descriptions)

Know your consumer (Who to Upsell)

Know Room Inventory for the Day (Must be part of daily setup routine)

Appropriate methods of presentation (Sophisticated ways of making the pitch, avoiding forcefulness)

The Interaction must be positive, creating a healthy feeling regardless of the result

Rules and Regulations of Upselling

Logistical Issues (Payouts, Deadlines)

Conclusion

A successful Front Office Incentive Program provides added value to all stakeholders: consumers, employees, and employers. The consumer benefits from having the opportunity to experience the hotel's better accommodations at non-standard rates. Apart from financial incentives, the employee feels motivated and confident in regard to his position at the front office. Active Upsellers develop extensive product knowledge, command of room inventory, and an improved ability to interact with guests. As consumers and employees gain increased satisfaction levels, the cumulative benefits filter over to the employer in the form of improved consumer and employee satisfaction, and a strengthened bottom-line.

Guidelines for a Sample Upsell Contract:

Based on the preceding examination, the following points must be included in the employee-employer Upsell Program contract for optimal operation:

Mission Statement:

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1. To operate a program that offers guests the opportunity to experience our best accommodations at a non-standard rate solely based on availability.
2. Offer agents the opportunity to profit from commissions stemming from additional revenue creation for the hotel.

Pay Out Structure:

1. Must detail the commission rates agreed upon based on amount of individual Upsell revenue created.

For Example:

\$1 - \$5000 = 5% commission rate

> \$5001 = 10% commission rate

Floor Rates:

1. In consultation with the Revenue Manager, establish rate discount thresholds for each room category in the hotel.

Eligibility:

1. Allow all front office agents, supervisors, and Assistant Front Office Managers to profit from the program. Allowing AFOMs to participate in the program offers them incentive to provide an active leadership role in enforcing regulations.

Rules and Regulations:

1. Upsells cannot take place prior to guest arrival.
2. Walk-in guests cannot be upsold.
3. Guests cannot be upsold for rates higher than Rack.
4. No negotiation with guests, first offer is final offer.
5. Guests cannot be upsold over the phone, must be at check-in. Management should approve any Upsells after check-in.
6. Groups, wholesale, comps, or house use reservations where the rate is compromised or confidential are not eligible for Upsell.
7. Adding additional rooms to an existing reservation does not constitute an Upsell, unless Upselling to a multiple bedroom suite.
8. Rooms/suites not clean at time of check-in cannot be upsold.
9. Agents must make certain the suite/room upsold to is available for the duration of the stay. Agents are not permitted to overbook categories for upsold rooms.
10. All premiums must be written on the registration card, and thereafter clearly initialed by the guest to acknowledge rate change.
11. Reservation comments should be updated after an Upsell.
12. Room Service and Housekeeping must be notified of any room changes, assuring proper amenity delivery,
13. All paperwork along with calculations must be submitted at the end of the month to the responsible manager for payout.

14. Violation of any mentioned regulations can lead to disqualification or suspension from the program on managerial discretion.

Employee Signature: Manager Signature:

1 *About.com. "Quotes: Business." July 10, 2007.*

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7 *Houran, James and Keith Kefgen. 20/20 Skills/HVS Executive Search. "Money and Employee Motivation." January 11, 2007.*

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