

Hotel Revenue Management in a Stagnant Economy - By Neil Salerno

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In a stagnant economy, using the principles of revenue management can help hoteliers to maintain and build average rate and occupancy. Even in tough times, every hotel experiences periods of higher demand. Recognizing those periods, in advance, can give you the ability to drive rates when you can and still retain the ability to modify rates during lower demand periods. Being diligent can produce big-time rewards.

Hoteliers, who do not practice revenue management, have a tendency to make decisions in a bubble and undervalue their rates. When times are tough, they have the misconception that lower rates will generate new demand. This is a myth that has never been true. For those disbelievers, you might want to check the Cornell University web site, they have conducted several good studies proving that reducing rates is always a bad idea.

The basic tenet of hotel revenue management is the collection and analysis of competition and market data to uncover rate and occupancy opportunities. Collecting data is not a guessing game. How much do you really know about your competition and what's happening in your market? What do you know about the competition, beyond bricks and mortar, their management style, amenities, sales prowess, strength of their online marketing, location strengths and weaknesses?

Re-evaluate Your Competition

In a tough economy your list of competitors could be longer than it is during boom times. Off-season or lower demand periods create a more competitive environment. In a tough economy, other hotels may need to steal your business in order to survive. Upscale hotels, which ignored your hotel during good times, may need to target your business now, be prepared.

In a stagnant economy, it is absolutely necessary to know your competitors' rates and what else they are offering. If a competitor is offering higher rates for specific dates, it could be a tip-off that they have booked a group for that period or see something happening in the market. That's an opportunity to boost your rates to capture their displaced and/or overflow rooms. Are there any city-wide conventions or trade shows coming in during your off-season periods that could generate overflow or displace rack business?

Knowledge, about the area and the competition, translates to possible opportunities for your hotel. The easiest and surest form of research is to monitor your competition online. Remember, your online competition is different from your offline comp set.

Strengthen Your Internet Presence

Your Internet sales effort could make a critical difference during tough times. We know that at least 70% of travelers search for hotels on the Internet to make reservations. Can they find your hotel's site? Does your site perform well in generic search? And, if visitors do find your site, does your site promote your location and room generators?

Be aware also that, in a stagnant economy, your normal demand generators are suffering too, you may need to find new demand generators in a tough economy. Remember that your hotel is not a room generator on its own, people need a 'reason' to visit your area. Now may be the time to get closer to all your room generators, partnerships can be very rewarding.

The Internet may be the big difference between this and the last stagnant economy in the early 90's. The Internet has come a long way since those early days. No longer do we need weeks, or months, to plan and implement a sales strategy to win in this economy. Incorporating revenue management into your online sales effort can reap huge rewards quickly.

In Tough Times, Embrace Third-Party Sites

Anyone who follows my articles understands that I am a strong proponent for full utilization of third-party online sales. I get frustrated when I hear hoteliers repeatedly complain about paying a commission for the business they get from GDS agencies and/or third-party travel aggregators. This kind of short-term thinking is still too prevalent among hoteliers.

In most cases, reservations generated through third-parties are incremental rooms which the hotel would not have received in any other way. It is very clear to me that these complainers do not understand the basic principles of revenue management. If you are using revenue management, business from third-parties can be used to provide a base of business so you can boost the rates for your remaining rooms to achieve even higher average rates and occupancy.

During tough times, rooms generated from Expedia, Travelocity, and Orbitz are generally incremental without any rate or room displacement.

In general, online third-party aggregators are providing international exposure for your hotel, which you cannot achieve on your own. They are spending millions of dollars on pay-per-click alone. Stop looking at third-parties as your competition, you are not in the same league. It's a matter of the numbers they can generate.

People Need a Reason to Travel to Your Area

I've said it a hundred times, so pardon me if I say it again, 'people travel to an area for a reason, they, then, select a hotel in which to stay in that area'. With few exceptions, hotels are not destinations. Re-evaluate your web site, is it all about your hotel? Do you have nothing more than an online hotel brochure? Your site should highlight the demand generators in your area. This not only helps with generic search but, it also gives visitors additional reasons to travel to your area.

If you haven't already done so, evaluate the demand generators in your area. What specials are they promoting? If you are fortunate enough to be near a popular attraction, see if you can develop a partnership to get you through tough times. Don't operate in a bubble, you need to know everything that is happening in your area and what others are doing to promote travel.

Tough times often force companies to actually meet more often to develop their own strategies to overcome problems with the economy. Provide solutions to assist corporate travelers. Corporate and group business also gives people a reason for traveling.

To tap into more business opportunities, list every reason for people to visit your area and then develop tactics to getting the message of your hotel to them. Smart hoteliers are now developing packages which include area room generators.

The principles of revenue management could carry you through the current stagnant economy. Don't give in to the desperation of dropping your rates and crossing your fingers, generating business is hard work. As the old saying goes, 'you have to kiss a lot of frogs to find a prince'.

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