by Brianna Scanlon

Compromising rate integrity in a recession carries both short- and long-term risks

Recession is a word that is on everyone's mind, including owners, managers, employees and guests. In a recession as monumental as this one, companies are doing anything they can to survive. One of the hardest hit industries during these tough economic times has been the travel and lodging industry. Properties across the spectrum, from limited-service to world-class, are doing whatever they can to maintain occupancy percentages. In this effort to keep occupancies high and employees working, many hotels have begun to compromise room rate integrity.

In order for hotels across the United States to continually keep guests occupying rooms, many properties are lowering their room rates. But each property is approaching this rate reduction strategy in a different way. Some of these methods have included simply cutting rates, offering package deals, and marketing a number of rooms through opaque third-party websites such as Priceline.com or Hotwire.com. This final effort is intended to simply fill rooms, even if it is at a rate that under normal economic circumstances the hotel would never offer.

Decrease in occupancy and RevPAR

Over the past couple of years the economic climate has mandated that hotels in the United States drop their room rates. This information has been proven in the latest occupancy reports. According to the American Hotel & Lodging Association, average occupancy for year-end 2006 was 63.3 percent, but it decreased to 63.1 percent for year-end 2007. The average occupancy percentage continued to decrease in 2008 resulting in a year-end 60.4 percent occupancy for the lodging industry.

These decreased occupancy percentages have also been complemented by a decreasing RevPAR from $65.52 in 2007 to $64.37 in 2008. All of these statistics prove and support the decisions companies have already made to begin cutting rates and outsourcing guestrooms through opaque websites.

Positive and negative aspects of opaque sites

This process of marketing rooms through opaque websites has perhaps done more harm than good though for certain properties. The advantages that come from using these websites are positive for hotels in that it helps keep employees working, occupancy rates high, advertises the property, and opens the hotel up to new markets they may not have had much activity from in the past. Many reservation or revenue managers at full- and select-service hotels rationalize their decision to offer through opaque websites hoping that these guests will, in turn, utilize the various ancillary, revenue-generating amenities of the hotel.

The negative ramifications from this contracting out of rooms to opaque websites may be less in number but perhaps not in importance. The most prominent disadvantage when outsourcing guestrooms to third-party websites is that the reputation or "positioning perspective" of the hotel might be being jeopardized in the minds of its loyal or regular customers. Additionally, sites such as Priceline.com or Hotwire.com, where potential guests bid for hotel rooms, could possibly attract less desirable guests to higher-end hotels.

Frustration and confusion by loyal guests

For guests staying at a four-star property it can be frustrating and confusing if when talking to a fellow guest at the lobby bar they find out that they are paying $350 per night when the other guest is only paying $150 for the same type of room and amenities.

Hotels attracting a new market of potentially less desirable guests can also cause those customers who were once loyal to question that loyalty with a particular establishment. Guest loyalty can also be compromised when patrons notice a new type of clientele visiting the property that perhaps does not seem to match the positioning integrity of that particular property.

It would be very worrisome for loyal patrons of the Waldorf=Astoria to see a team of rowdy teenage hockey players check-in and run the halls or congregate in the lobby all night. What will weekday business guests think when they witness leisure guests in the lobby of a hotel who are wearing sandals and shorts and carrying pizza boxes or fast food meal bags. How will those regular business travelers respond when there is an extensive wait to check in, to use the business center computer, or perhaps the fitness center equipment, because of the unexpected influx of casual leisure guests?

Occurrences such as these can jeopardize a hotel's reputation and cost a property their guest loyalty. Both of these situations can be costly to a property's bottom line because they can endanger the future profits of an organization. A once-loyal guest would most likely have no problem staying at another competing property the next time they are in town if on their last stay they were kept up half the night by a team of rambunctious hockey players.

Always consider the long-term benefits

In these troubling economic times companies doing anything they can to make a dollar or increase occupancy percentages is understandable, but these rate strategies need to be considered from every viewpoint before being implemented. Managers, specifically revenue managers and general managers, need to conclude, after much careful consideration and discussion with the front office manager and other staff, that in the long-run the consignment of these guestrooms will not hurt their potential future profits once the economy begins to turn around. In other words, not all business is good business or good for your hotel's business.

In order to avoid or lessen the situations discussed above, properties should first consider reducing rates and offering packages on their own website as well as on sites that they have worked with in the past. They should also concentrate on marketing packages to previous guests who are familiar with their particular hotel and the standards and reputation that come along with it. Executing these actions first may help to raise hotel occupancies while at the same time potentially increasing guest loyalty.

Ultimately, it is important that hotels and lodging establishments take the necessary measures in order to ensure the future of their property. However, recessions do not last forever and the effects of pricing strategies on future profits should be considered in all strategic plans. ✧

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