Revenue Increases in 2013
Make your plans

When autumn leaves begin to fall, it's the time of year when we start to think about footballs flying through the air and try to come up with creative programs that will help fulfill the promises we made to our ownership committee in our 2013 budget. Whatever we dreamt up for a total revenue figure is now being increased by the ownership as it tries to prove that its investment will work out just the way it was promised. In other words, we may be in for another rerun of "Alice in Wonderland." I used to hate this time of year, long hours with spreadsheets that require magnifying glasses even on legal-size paper. Now I am more philosophical, after all, I have played this game for 25 years.

Here is the CliffsNotes version for the fourth quarter budget game: Right now, hoteliers have a basic decision to make for 2013. After a few years of survival mode with no rate increases, do hoteliers try to raise contract rates, or would it be less risky to keep volume accounts in hand and use every opportunity to raise the best available rates (BAR) on transient business throughout the year when occupancies warrant it. Before chosing an option, hoteliers will get the final budget number and will probably have to try to do both.

To attack this problem, look at the revenue per available room (RevPAR). This is the classic measure of revenue management success because it determines just how effective the property is in terms of selling its inventory at the most effective price. Fortunately, in the past few months, a steady increase in U.S. RevPAR has been seen when compared to 2011, with similar increases in most regional and local markets. That increase has been the result of business slowly coming back, especially groups, meetings and conventions. It is unsure that the economy is improving enough to cause these gains, so maybe companies are just realizing they cannot defer their business travel or corporate meetings any longer. On the personal travel side, even though families don't necessarily feel sanguine about their economic future, they have delayed their vacations long enough and are beginning to dip their feet in the water with shorter vacation travel again. Unfortunately, the primary economic indicators are not headed in the same direction, so caution is still the primary sentiment in business today. Although many travelers are over the cash crunch, they are still being frugal on travel expenses.

Looking deeper into Smith Travel Research, the RevPAR increases are due almost entirely from occupancy (volume) increases and not from increased rates. This is to be expected because all hotels have been following a strategy to take any business that they can find to climb out of the hole that came with the recent recession. Relying on occupancy increases has been a workable strategy in most markets, but is unsustainable in the long term because hotels will run out of inventory at some point.

> For those who have never heard of CliffsNotes, the creator was the personal tutor of every college kid in the 1960s who had to read "Plutarch's Parallel Lives" the night before a final exam. Actually there was no one named Cliff; these notes were actually pamphlets written by Clifton Hillegass that summarized the main points of any classic into approximately 30 pages.

Eventually hotels will need to increase rates to increase RevPAR. But where to begin?

How to increase RevPAR is actually easier said than done. Increasing rates across the board will increase RevPAR, but only as long as the same people continue to book. Furthermore, long-held economic theory on price elasticity suggests that the greater the price increase, the greater the probability that some people can't afford the rates and a property would lose both occupancy and revenue. This is analogous to tax structure debate, for example, most economists agree that raising tax rates will not necessarily increase total government revenues. Actually, lowering tax rates has often resulted in higher total revenues. The same logic applies to hotel rates and revenues; specifically a room rate increase will not always result in more revenue or higher RevPAR.

Furthermore, not all markets are the same; so, no generalizations are foolproof. The local market may be approaching 2006 occupancy levels, but only on weekends, while weekdays may still be struggling. The key point is to understand where a property fits on the national spectrum. Obviously, if a hotel is filling with some level of regularity it can be sure that pushing the rate side of the equation is needed because occupancy is being capped. However, if a property is not filling, it needs to be more careful in raising rates.

As plain and simple as it seems, most hotels have a very difficult time understanding when and how to shift from an all-out sales mode of taking all available room nights offered to a more balanced view that sees inventory in demand that must be allocated to different markets and channels to optimize total revenue. Many recent articles in the trade press point out that owners want rate increases right now. Hotel managers must consider their local markets and develop a cogent plan.

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Here are **six key points** to consider:

1 Look closely at your Smith Travel Report and ensure that your market is giving the same signals as the national market. If a property's revenue increases are coming on the occupancy side, then look at rate increases. The sooner a property does, the better the returns will be. Don't be the last to raise rates if the local market is ripe for an increase because time is money and who knows how long these conditions will last.

2 If a property's rate index is highest in the market and the occupancy index is low, your competitors are not following your rate increases and customers are not buying in either. This is not too bad if a hotel's RevPAR index is over 100, but if it is below 100 you may already be too aggressive on rates. However, if all hotels' occupancies are high, then a property can leave its rates alone. Soon the competition will run out of space and the property's rates will be positioned to take the overflow.

3 Remember revenue is the real target, not necessarily rate. If a property earns a lot of ancillary revenues from guests, it may want to keep occupancy high at the expense of rate increases to keep people spending on property. This is especially true at resorts and casinos. As much as the market despises resort fees, the hotels that charge them are not yet being punished with tremendous loss of market share. The same holds true for those obnoxious airline bag fees. It is as if consumers are not very organized so they cannot mount a strong push back on these fees. On the other hand, from a long-term strategy perspective, it is never a good idea to have dissatisfied guests.

4 As scary as it sounds, now might be the time to tackle the tough problem of how to increase revenue from large commercial accounts. This will require extensive analysis of the stay patterns of the client and a skilled sales approach in negotiation, especially if you have not sought an increase for several years. If the account is only taking rooms on peak nights like Tuesday and Wednesday, then you can afford to be more aggressive in the negotiation, but since it is a large account you want to look for a win-win solution. Make sure to have some rationale to open the issue. For example, energy costs have been increasing or wage rates have risen. Also, you may have undertaken some renovations to improve the guest experience. Have a percent increase target in mind but don't get hung up on that number. Often a change of terms may result in a larger increase in revenue than a rate increase.

5 Think about the terms and conditions that might be more valuable than a direct rate increase. For example, if an account has had a $59 rate that it wants to keep, allow it, but put an advance purchase provision on it or set up a limited availability provision you can use on nights you are going to fill.

6 Wean accounts from an unprofitable rate by analyzing stay data. If an account has a $59 rate, offer a two-tier structure of $55 on off-peak days and $65 on peak days. It may move their business mix to allow you to back fill with higher rated business on peak nights.

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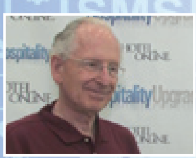
WHERE WERE YOU 20 YEARS AGO?

HOSPITALITY UPGRADE 20TH ANNIVERSARY

Dave Berkus, *Venture Capitalist*



Rich was one of my best salespeople, and he decided at one point in time, toward the end of my time owning [Computerized Lodging Systems] that he would rather be in Australia. So for three years, Rich sold product for our distributor in Australia. I am glad he stopped that whole thing and founded this magazine.
Rich, congratulations for 20 years.

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