



Front Office

by William D. Frye, Ph.D., CHE

Hotel “call arounds” pose legal problems while other options do not

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Despite the myriad of resources available to hoteliers in a technologically advanced business environment, many front office managers opt to still engage in the age old business practice known as the daily “call around”. This is where a PBX operator or front desk clerk engages in a benchmarking exercise by telephoning other nearby hotels to inquire about their selling rates and occupancy for the coming evening. Based on the information culled from the call around, some front office managers may choose to raise or lower their short term rates to maximize revenue potential.

When performing the call around, sometimes the caller pretends to be a potential guest inquiring about the prevailing rate and availability at the other hotel, though more than likely, the caller may choose to identify what hotel they represent and even offer to share their hotel’s selling rate and projected occupancy for the evening in exchange for the same information from the other hotel. Such a tactic often takes the mantra of, “If you tell me yours, I will tell you ours”.

A faulty tactic

My professional experience over the years leads me to believe that this approach to keeping tabs on your competitive set (“compset”) is unreliable and rife with misleading intelligence. I cannot recall a time when my hotel ever supplied correct rate and occupancy information to another hotel directly. We always fudged the numbers one way or another depending on the projected demand for the evening.

If we were close to selling out and didn’t want to accept any overflow, we would always supply artificially high numbers so we could drive up average room rate perception among our competitors for the evening and justify quoting a higher rate to the few walk-ins that we would accept. If we had a glut of rooms that we needed to sell, we would quote artificially low rates and occupancy hoping to either pick up some overflow or walk-ins or to drive down the average rate being quoted to potential guests by our competitors. Either way, we never gave them the straight story.

In reality, I am pretty sure that they never gave us correct information either. Instead, it seems that all competing hotels were engaged in a huge waste of time and manpower to obtain unreliable data. We then based our short-term selling strategies off of this unreliable data, as did our competitors.

An illegal tactic?

What most hoteliers may not realize is that the practice of calling around to other hotels to obtain this data can be considered an illegal business practice and in violation of federal antitrust regulations designed to promote fair and open trade amongst competitors. The reason for promoting open competition is the belief that it motivates both producers to



manufacture better products and sellers to sell these products or services at lower prices, thus benefiting consumers. Within the United States, both the Sherman Antitrust Act (1890) and the Clayton Act (1914) form the basis for such antitrust regulation. Penalties for violation of antitrust laws can be significant and may include court ordered dissolution or divestiture of a business, criminal penalties (jail and/or fines for owners or operators), and treble damages paid to injured plaintiffs.

What hoteliers should realize is that by calling around to inquire of rates and occupancy could be considered as collusion, a *per se* antitrust violation intended to restrain free competition. *Per se* violations are violations that are always illegal, regardless of intent. Similarly, anytime managers or owners gather together in a common environment (such as at hotel association events), they must also refrain from discussing or sharing prevailing rates, occupancies, ADR, RevPAR, GoPAR, Yield, or other operational statistics amongst themselves. Such actions could be construed as potential price-fixing agreements (or invitations to engage in such) intended to drive up room rates and potential profits at the expense of consumers.

Large fines for violations

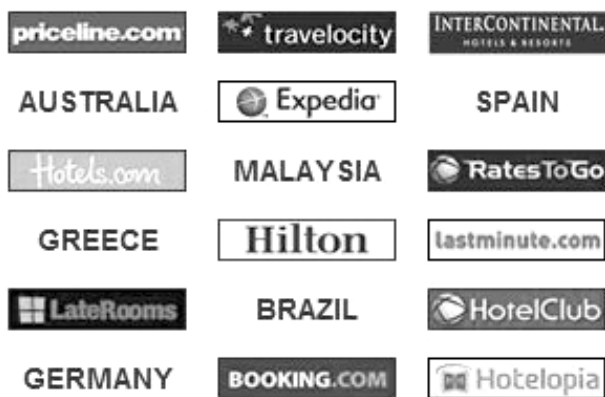
In recent years, many governments throughout the world have been pursuing antitrust violations by hotels. In August 2011, the owner of three hotels and a management company in Connecticut agreed to pay, as part of a settlement, \$50,000 in fines and to stop calling other hotels to learn their occupancy and room rates. *The Connecticut Attorney General described the call around practice as “price fixing”*. Just 16 months prior, the same Attorney General’s office settled with another hotel for similar violations. In November 2005, six luxury hotels in Paris were fined a total of 709,000 Euros for colluding on their business and marketing plans on a weekly and monthly basis in order to shift prices to higher levels. The managers spent considerable time on email and in meetings exchanging information in an attempt to fix prices.

Information that is not illegal

So, if sharing rate, occupancy, and other performance data directly with other hotels might be considered “collusion” or “price fixing” and hence illegal, where can hotel managers legally obtain critical information for benchmarking purposes? The answer is two places, the Internet and through industry research organizations and associations such as Smith Travel Research, Convention and Visitor Bureaus, Chambers of Commerce, your state’s lodging and tourism office or association, and even the American Hotel & Lodging Association.

The most reliable source of current rate information for future dates can be found online at each hotel’s website and through third party intermediaries such as online travel agencies. Want to know how much the hotel across the street is selling its guestrooms for tonight? Visit their website as any potential guest would to ascertain what the hotel is asking. Sometimes online travel agencies and other intermediaries may offer a lower price (especially for reservations booked through opaque travel websites), but they earn their profit through booking fees paid by the guests and commissions retained by the agency from the payments collected.

Computerized technology allows hotels and central reservation offices to raise or lower room rates on their website on extremely short notice based on actual demand demonstrated by bookings. Such dynamic pricing can be programmed into computerized models allowing the rates to fluctuate in sync with the demonstrated demand.



But many hoteliers forget that your competitors’ information is there online, all you have to do is look. Hotels will not post false rate information on their website because they would be required to honor bookings at the posted rate or lose out on potential revenue and profit if they set a rate artificially higher than the market would bear. The Internet is there for everyone to see, both potential guests and competitors alike.

The other logical source of competitor information for benchmarking would be derived from reports that are available either freely or on a subscription basis. Many hotels subscribe to Smith Travel Researches’ local compset and trends reports. While these reports can be expensive to receive, they render the most reliable “after the fact” market statistical data available. This is because hotels are required, as a condition of their subscription, to furnish their performance statistics in a timely

and accurate, but confidential, manner. Smith Travel Research (STR) then takes this individual data and presents it back to its subscribers in aggregate form without revealing individual hotel performance data. STR Reports are great for benchmarking your hotel’s performance against your identified compset or within the general market, but will not allow you to benchmark against any single property.

Many CVBs, COCs, and other trade associations collect performance data directly from their membership, while others often partner with industry research companies such as Smith Travel Research, PKF Hospitality Research, Richard K. Miller & Associates, and Y Partnership to obtain and analyze performance data for their geographic locations. The advantage to these reports is that they are often free to members of the association, though it may take longer to reach individual hotels as they must be forwarded by the association after they are through completing their review or analysis.

Conclusion

Based on recent antitrust efforts relating to hotels, what is very clear is that hoteliers should no longer engage in “call arounds” to their competitors. Nor should they ever disclose performance statistics directly to a competitor, whether it is over the phone, via email, or even in a casual conversation or a business meeting. More reliable data that are not illegal to obtain or disclose is available through third parties sources. This is where hotel managers should invest their efforts. ✧

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