



Reservations

by Eric Barber

Is a recession looming? How hotels can prepare for an inevitable economic downturn

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Globally, the hospitality industry has been enjoying some very successful consecutive years of growth, despite some bumps on the way such as oil prices, currency exchange rates and border and passport issues. However, the future is potentially uncertain; a recession in the United States is looming, and this will have consequences for the tourism industry, not only in the U.S., but possibly worldwide. The question is: What can a hotelier do to prepare for a possible economic downturn?

Historical analysis

The first thing that any hotel should be doing, whether there is a tourism boom or a possible recession, is to conduct and maintain a historical analysis of detailed trends for the last three to four years for the property. Such analysis should include gross revenues, profit, occupancy percentage, ADR, RevPAR, segmentation, source analysis, arrival patterns, weather, special events, and group blocks, etc. Perform a cross analysis to better understand the interaction effects of independent variables such as weather, special events, group blocks and arrival and booking patterns on how they drive and affect the dependent variables of revenues, occupancy, ADR and RevPAR.

It is imperative that a hotel is fully cognizant of any patterns where the hotel is projected to be very busy and make sure that there are no mistakes made in their yield strategy – or that they have done the utmost in forecasting to minimize the risk – so that when the market is busy, every possible amount of revenue is actualized. Conversely, hotels must assess their need periods and identify when times will be tough, and prepare accordingly, with relevant strategies that will help ease the burden.

Scientific rate positioning

This forecast is the perfect segue to the next step in surviving a possible tourism downfall, with scientific rate positioning. This task begins with an objective competitive analysis of both the hotel and its competitors. First, judge the hotel's strengths and weaknesses on a value matrix which will give significant assistance in assessing proper rate. This should be done whether it is on a potentially sold out special event or on a desolate night in the low season, where embattled hoteliers feel they could shoot a cannon through their lobby and nobody would be there to notice. Perform the same analysis on your competitive set (compset) and chart it in the matrix. The side by side comparison allows for easy benchmarking.

If a hotel is not already using some sort of algorithmic rate research program such as RateVIEW™, Rate Tiger or RateGain, this is an excellent time to explore the benefits of such technology and take advantage of possible introductory incentives for their usage. These programs enable individual properties to understand and monitor pricing in their local marketplace. Management can audit its own pricing across multiple channels, identify merchant and retail rates, and isolate competitors' brand site Internet-only rates. Instead of using valuable man hours to have an employee on the property research rates that will likely change frequently, release your personnel from this sort of burden by using one of these programs on a regular basis, perhaps even once or twice a day, to make sure the property is properly positioned.



Talk to the competition

Next, stay in touch with your friendly competition. Speak in general terms about their impressions of the market, attend local industry association and CVB meetings, and keep informed about what might possibly be expected in the future. There is much more to be gained with candid conversations with industry peers rather than maintaining a solitary mentality devoid of communication which benefits nobody. Such lack of interaction with others can lead to reactionary and unnecessary rate reductions in a market due to one's ignorance of current marketplace happenings.

Diversify market segments

This is also an opportune time for the hotel's revenue and sales team to start thinking of segment diversification. When the hospitality industry is enjoying success, many properties become complacent and rely too heavily on specific market segments, whether they are corporate, group, leisure, etc. But such a lack of a diversified strategy can have dire consequences to a property, and if a specific segment suddenly bottoms out, the hotel will find it extremely challenging to try and seduce new segments from the competition during a crisis. Keep in mind that tour business is booked two to three years in advance in many cases, and that it will be nearly impossible to get anything but the occasional ad hoc business because of the business model.

A corporate property may begin to consider reaching out to the leisure segment; perhaps starting out with AAA offices within a 4 hour drive of the property, communicating with market managers of the Online Travel Agencies such as Travelocity®, Orbitz and Expedia and seeking alternative methodologies to capture additional bookings in their need periods.

Leisure dependant properties would be well recommended to make sure that they take advantage of all consortia/TMC programs available to them via the brand or representation company, so that their rooms sit on the appropriate virtual "Shelves." Investments in GDS advertising may also be a consideration if there is any sort of budget available. In short, take a serious look at the market mix of the property and the potential market mix of the entire market, and strategize to balance these as much as possible, while always being mindful of enhancing revenue and not displacing it.

Consider packages

Packaging is becoming a more prominent marketing tool in the hospitality industry. Offering packages that deliver a high level of value to the consumer will make a property very interesting to potential guests. This approach can take many forms and can be used across a variety of market segments. For example, the corporate market segment can be enticed with a very simple offer of an inclusive hot breakfast included with the room rate. This can be very effectively applied across a variety of distribution channels, including the GDS, brand website, central contact centers and the hotel reservations office.

Taking this a step further, creating conference packages that offer significant value to include a guest room, meal package, coffee breaks, etc. are an excellent tool to facilitate meetings business in a hotel. Leisure packages can be comprised with a wide variety of special offers, with partnerships with local attractions, meal inclusions, suite offers, etc. that will be appropriate for families, couples, last minute getaways, etc. But keep in mind, the package offers should be a true value to the guest and represent a great deal, which may compel the potential guest to book.

Likewise, although not strictly packaging, offering specials on multiple night stays through the brand website and using the merchandising power of the online travel agencies is an excellent way to deliver incentives to prospective clients, especially if leveraged over need periods.

Data mining and direct marketing

Most properties don't take the initiative at the property level to take advantage of a tool that can prove to be an excellent asset to its marketing opportunities at a relatively low cost. Typically, hotels depend extensively on a brand or rep company to generate the demand that will fill the hotel. But with the possibility of a downturn on the horizon, properties cannot afford not to participate in some sort of data mining exercise to increase touch points, with not only their prospective clients, but also clients that have used the property in the past and are not currently active.

Data mining can be done at the property level by looking in the property management system and filtering guests to be contacted, perhaps by region, date of last stay, travel purpose, etc. Some of the elements discussed above, such as packaging or special offers may be an excellent way to spur bookings, but be sure to keep in mind that any applicable privacy laws are adhered to and complied with.

At the brand level, most brands send regular email blasts to their databases, and hotels should contact their brands and assess any opportunities to be included and merchandised on one of their special offer e-mails. By planning in advance and being cognizant of need periods, this can become an excellent tool not only to gain additional revenues but to diversify to a new type of market segment. In addition, at the brand level, there are often opportunities to leverage the loyalty program database and use this to submit offers to a broad spectrum of guests, again by travel purpose, market segment, last stay, frequent user, etc.

Air travel trends

Long distance travel is typically affected by economic recessions, and in conjunction with reduced flight capacities, but much higher load factors, plus the possibility of consolidation among some very large airlines, airfares are likely going to continue to rise. If an economic

downturn hits, this will likely negatively affect a property's arrivals and market segments as individuals seek to minimize discretionary expenditures and some companies embrace technology alternatives (e.g., teleconferencing) to replace business travel.

But in many cases, despite the effects on airlines, rubber tire traffic will actually increase and trends of short two to three night stays will rise. This provides properties an ideal time to increase regional marketing and sales efforts, and staying on the radar of consumers within a four-hour drive of the property. This may include advertising, sales calls at leisure travel agent offices, representation at regional shows, etc. Coupled with a great deal, the decline in long-distance business travel can be greatly offset if a property is very active in its local environs.

Other considerations

It has now become a mantra in the hotel industry that direct distribution is the most profitable channel to a hotel, and properties should always be mindful to avoid the aftermath and pitfalls of the post 9/11 era, making sure all efforts are focused on growing or maintaining property direct business, especially on the brand or property website and direct bookings at the hotel. A modest pay per click campaign bidding on the property name and city can pay excellent dividends and prevent third parties from cannibalizing guests that were looking for the property anyway.

Last, but not least, the final piece of the puzzle to surviving in an uncertain economic time is to ensure that the property is always a market leader in providing an unparalleled guest experience with superb, personal service. Make all property policies guest-centric and reduce any obstacles that may create a negative guest experience. Evaluate all guest touch points from the initial reservation until after the departure and strive to find ways to find resolution to any issues.

Invest in the hotel staff with additional training, which can be provided in-house, by the brand, or by a contracted third party. Keep staff aware of the necessities of being a market leader in service and include them in discussions. Their candid experiences will prove to be vital in delivering a high quality guest experience.

The tourism industry has been through hard times before, and upon every occasion, it is important to learn from these experiences and grow because of them. Forecasts are currently positive, but with so many variables that can affect the economy, only a naïve hotelier will not be mindful of having a strategized contingency plan in case the worst does happen. ✧

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