Marketing

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

Five steps for hotels to embark on as they await better economic times

The lodging industry is destined for recovery. All veteran hotel managers are aware of this phenomenon of cyclical demand that is tied to the perceived strength of the economy, the availability of discretionary income, and the consumer confidence index. It's just a matter of time before the lodging industry experiences the inevitable upswing of consumer demand and will realize increased profitability once again.

But what will this upswing look like? How will we as a collective industry know it when it arrives? Will it be as robust as the verge of the Millennium or even four years after the 9-11 tragedy? Or will it sneak upon us in a more stealthy and unrecognizable manner?

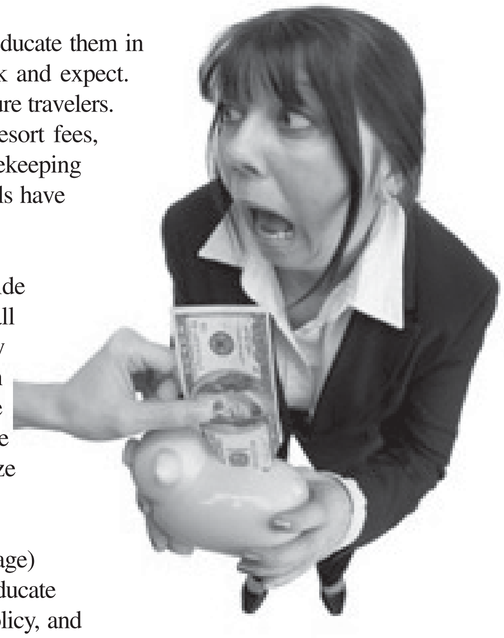
During the recent International Hotel, Motel & Restaurant Show (IHM&RS) in New York City, veteran travel journalist Peter Greenberg shared his insights with lodging executives and a handful of invited journalists on what hoteliers can expect with regard to this phenomenon. According to Greenberg, it is not a matter of *whether* the industry will recover, *when* the industry will recover, or *if* it will recover (it always does, we all know this); the real aspect to discern is *HOW* the lodging industry will experience recovery. To better understand this, hoteliers need to comprehend how individuals travel and what their motivations are for travel, as well as what factors have minimal motivational effect on travelers.

Face it. Hotels guests are travelers, especially those that purchase the mainstay product of lodging properties, the hotel room on a daily basis. If these prospective guests didn't travel for one reason or another they would not have a need to secure a guestroom for the evening. That's pretty common sense.

Yet recently, there has been reticence on the part of many companies to fund travel at previous historic levels. The economy is underperforming, top-line revenues are down, companies are scrutinizing every expense to determine the necessity and rate of return of such expenditures, advances in technology make it easier for business travelers to complete many business interactions through conference calls and online meeting rooms, and recent questionable travel expenses incurred by large corporations that accepted federal bailout money (e.g., AIG) that appeared as excessive or lavish subjects all businesses, especially publically-traded companies, to far greater levels of public scrutiny and accountability. Hence, the future marketplace will be different.

According to Greenberg, the lodging industry will not be price-driven as much as it will be "value driven", especially if hotel companies want to survive the economic challenges of late. The charge towards recovery will be led not by business travelers but by leisure travelers who are seeking added value for what they pay for their hotel stay. Sure, discounts are nice and everyone loves a bargain, but it does little to create brand loyalty. It is too easy for one hotel to undercut another nearby competitor's rates in the hope of short-term occupancy gains. This practice leads to price wars that result in no profitability and looming bankruptcies, as exemplified by the American airline industry. The lodging industry has taken many marketing cues from airlines (yield management strategies, frequent flyer loyalty programs, upgrade reward programs, etc.) but incessant discounting is a prescription for disaster that will destroy the long-term viability of the industry. "Discounting is suicidal; hotels (sic) will lose their heads", Greenberg assured all in attendance at the hotel show.

Pictured below: Travel expert Peter Greenberg warns hoteliers that the key to surviving the current economic challenges is maintaining rate integrity and creating value for guests.



Instead of institutionalizing discounts, hotels need to deliver value to consumers and educate them in the process. Avoid the price proposition and focus on the amenities that guests seek and expect. Multiple pillow choices and free wireless Internet access is a must have for today's leisure travelers. Eliminate extraneous and unnecessary fees as these only irk travelers. Obligatory resort fees, energy usage fees, minibar restocking fees, excessive parking fees, mandatory housekeeping gratuity assessments, optional room cleaning fees, etc., are some means by which hotels have attempted to augment their rooms revenue, only to rankle many guests.

Consider the success of the "nickel-and-dime" approach in the airline industry. Aside from the recent rash of ever-changing baggage handling fees assessed by almost all domestic carriers, Ryanair of Europe is considering charging passengers to use a lavatory onboard its jets, US Airways and JetBlue currently charge $7 for a blanket, and American Airlines has implemented a $50 fee to travel "standby" and occupy an empty airline seat. And yet the only U.S. airline to report a profit last year (and for 37 consecutive years) was Southwest Airlines, which lets passengers check up to two standard size bags for free.

And how does Southwest maintain its high airplane load factors (occupancy percentage) and justify that its tickets prices are competitive but not always the cheapest? They educate consumers about their "Bags fly free" policy, "Choose your own seat once aboard" policy, and their generous refund and minimal travel restrictions. We have all seen their hokey commercials on television that remind consumers that with Southwest, "You are now free to move about the country"! Is it any wonder they are the only profitable airline in the American air transport industry?

So, what can hoteliers learn from Peter Greenberg and Southwest airlines among others? Here are five points for your consideration:

1. *Don't compromise your hotel's rate integrity.* Guests will see the value of the product as being diminished as the rates are dropped. It will not instill loyalty and only requires hotels to keep cutting rates to bring guests back. But at some point there will no room left to cut and then no customers.

2. *Provide special amenities that guests want and need, but don't charge for them.* This creates value. Eliminate the amenities that guests don't want or need; these do not provide an acceptable return on investment.

3. *Avoid extra fees at all costs!* If necessary, roll the fee into the cost of the room rate so it not as transparent to the guest. If guests know about it, they will dwell on it and become upset. All of a hotel's operating expenses should be built into the cost of the guestroom or items purchased. Imagine going out to dinner and ordering an expensive meal; the check arrives and reveals an extra fee to furnish the table linens or wash the china or silverware. It is just not right!

4. *Educate the consumer market about your special amenities and no extraneous fee policy.* The only way customers can ascertain value is by experiencing it. But to realize the value they must first buy the product or experience. Customers need a reason to buy your product over your competitor's. They need to know in advance what your hotel can deliver that the others can't deliver, won't deliver, or will charge extra for.

5. *Spend the time now when times are slow to renovate, restore, and refurbish various areas of your hotel.* Now is the perfect time to complete this needed maintenance as occupancies are low and vendors and contractors are offering discounts to obtain work. Such disruptions will cause less inconvenience now than when the industry hits its eventual upswing and displacement of guests, bookings and potential revenue will be required to carry out needed maintenance and renovation.

Lodging companies have adopted many marketing and revenue management techniques from the airlines, now it is time to learn from their mistakes and the short-term pricing policies of other hotels. Think long-term, incorporate "value-added", and focus on future potential profitability. ✧

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