Marketing

by Dustin Personius

Challenges of the recession force hotels to rethink their marketing strategies

This past summer, the travel industry was hindered by skyrocketing fuel costs resulting in airlines being forced to increase airfare, decrease capacity, and cut service to many destinations in order to maximize efficiency. During that time, hotels were forced to offer such incentives as reduced room rates, food & beverage credits, and complimentary room nights in order to capture what available business remained.

More recently, while the out-of-control fuel prices of the summer seem to have stabilized as we enter a full-scale recession; the travel industry is being dealt yet another blow as consumers tighten their purse strings in uncertainty of the financial road ahead.

All things considered, this means that not only hotels and resorts, but restaurants, shopping centers, day spas and all other hospitality industry-related venues will have to continue to be creative in their marketing tactics in order to secure the necessary business to survive this economic turndown.

Challenges abound

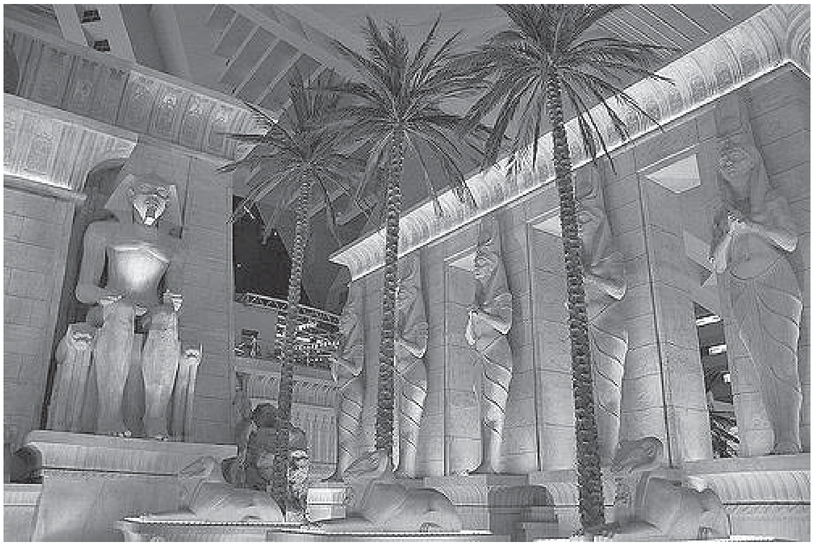
Hoteliers, especially in leisure-driven destinations, are faced with the challenge of meeting revenue and budget goals, increasing occupancy levels, and trimming expenses, all while maintaining service levels and, in many cases, brand integrity. This comes amid competition for the discretionary dollar becoming fiercer than at any time in recent memory.

Ironically, there is one bright spot in that the current economic situation has resulted in hotels and resorts offering some of the highest value and most affordable packaging that have been seen in years. Many all-inclusive properties have begun to offer extreme discounts to supplement airfare while traditional European plan hotels are providing some meals and daily resort credits to attract additional business.

The situation in Las Vegas, while in some ways unique only to that destination, offers great insight and perspective into the many challenges and conflicting strategies that this downturn in spending has brought to the city's resort venues. Once thought to be "recession-proof", Las Vegas hoteliers are quickly finding that the desert resort town is not only susceptible to recession, but can be more deeply affected by an economic slowdown than even smaller tourism-driven destinations.

In years past, hotel rooms in Las Vegas were often viewed as secondary revenue centers when compared to their attached casino venues. It was common practice for resorts to offer deeply discounted room rates or even complimentary stays to its casino players to keep them coming back as the payoff for these promotional rates and comps far outweighed the cost.

This concept has changed significantly, especially over the last ten years with an increased presence in Las Vegas of the "mega-resort". Las Vegas is home to some of the largest hotels in the world, most with more than 3,000 rooms and some with over 7,000. As the Las Vegas brand has moved more up market, the days of dirt cheap room rates and easy complimentaries are all but over. The mega-resort is far more than a hotel, but a self-sustaining destination within a larger one. By all rights, once inside any one of the nearly twenty mega-



resorts on the Las Vegas Strip, guests can feasibly remain on property for the entirety of their stay.

With the growth in size and scope of the Las Vegas resort came substantial overhead costs. Thus, Las Vegas is no longer just about gaming. Today the destination places as much focus on the design and comfort of guestrooms as in the casino floor and dining outlets. Also, in addition to the massive guestroom inventory, these mega-resorts are now responsible for supplying critical mass not only to casinos, but restaurants, showrooms and nightclubs.

It is important to understand the background concept of the Las Vegas-style resort in order to have a true appreciation for the challenges of that destination, and others like it, are faced with in today's economic climate. Las Vegas hotels are being constantly challenged by a variety of conflicting problems and solutions, none perfect and all resulting in the need to sacrifice some element of either the resort experience or profitability.

Additionally, in a destination heavily dependent on air service for its survival, Las Vegas hotels are continually competing for market share. Essentially, the destination today is seeing a shift in existing market share while competing resorts cannibalize the existing business of their neighboring properties and are simply not seeing significant new business brought into the area.

Occupancy and rate

According to the Las Vegas Convention and Visitors Authority, the organization charged with marketing the destination of Las Vegas to the world, in recent years, Las Vegas has enjoyed average occupancy levels in the low- to mid-90's on the Strip and in the mid- to high-80's citywide. This is no accident. When developing these mega-resorts, painstaking research went into determining how many guestrooms would be needed to support the various on-site venues of the property. Therefore, running at high percentage occupancy levels is necessary for the resort's survival.

Now, as consumers become increasingly cost conscious, resorts are being forced to significantly lower room rates in order to keep the property at the required occupancy level. However, this strategy is certainly not without its defects. Lower room rates obviously have a negative effect on a hotel's profitability. In order to counteract this, resorts have begun to look for a variety of ways to cut costs.

Some properties are starting to lay off full-time staff members to save on payroll, insurance and other employment-related costs. This is a dangerous move from a service standpoint as guests will continue to expect high levels of service regardless of the rate they are paying; and with a full hotel and fewer employees, service is bound to suffer.

Other properties have limited the services available to guests or have reduced the operating hours of departments. Room service, for example, may close in the late night hours or offer a more limited menu between midnight and 5:00AM, as opposed to running full 24-hour service. Still, other properties have taken lessons from the airline industry and have begun charging for products and services that had previously been complimentary. Having a boarding pass printed at the hotel may cost $3.00, for example. Once again, guests are suffering from certain inconveniences with these strategies.

A strategy that has worked for one Las Vegas property has been to actually close several floors of the hotel. This has allowed that property to maintain, for the most part, its budgeted ADR by using yield management to successfully compete for short fuse arrivals. Also, the property has been able to eliminate significant staff in the short term to help keep payroll down while maintaining service levels. Of course, with this scenario, there are fewer guests on property to utilize the casino, restaurants and nightclubs. The hope by management is that the guests on property are spending more per capita than would be enjoyed with a fuller hotel at lower rates.

In looking at the bigger picture, none of the above solutions are perfect. Regardless of the strategy used, there is some sacrifice either on the part of the guest or the property or both. Additionally, hotels have had to contend with the idea of maintaining their brand integrity. A five-star hotel charging a $129 nightly rate may easily capture revenue from consumers looking for an opportunity to stay at such a property at a bargain rate. However, if service levels suffer, the same property may have a hard time maintaining its higher-end clientele. Additionally, there is the idea that although a lower room rate may result in a full hotel, those guests may simply not be spending the necessary dollars at high-limit gaming tables or in high-end restaurants.

Short-term solutions

As if a slumping economy and falling average daily rates were not enough of a concern for hoteliers in this market, there is yet another added stressor. With revenues falling off, many properties are experiencing cuts to their marketing and advertising budgets and some properties have seen these line items eliminated completely for the remainder of the year or beyond.

The most obvious problem with this is the fact that a property could be offering exceptional value to its guests with no way of getting the word out. Since marketing initiatives tend to be expensive and do not always guarantee production, many hotels are looking for creative ways to push their product while remaining cost conscious.

One example of utilizing existing resources to capture additional revenue is by creating a "bounce back" offer to be distributed to all previous guests with an e-mail address on file with the property. This is a relatively low-cost option given that the creative for the blast can often be put together in house and there is no need to buy a consumer address list since the hotel likely already has a significant database.

It is always a good idea for properties to reach out to their local partners such as restaurants, day spas, and attractions in order to offer soft cost value-added incentives. Especially since these offers provide a booking incentive to guests by adding value to the experience while providing relatively inexpensive advertising exposure to local partners. These types of arrangement provide a win-win situation for all parties.

Just as easily as packaging hotel features and offerings can be effective in attracting guests to a property, unbundling can work much the same way. In taking a lesson from the airline industry, many hotels have opted to slash their nightly rates and remove included services and amenities such as local phone calls, Internet access and daily breakfast.

This move toward a pay-for-use model must be presented carefully to avoid guests feeling that they are being nickeled and dimed, especially when they have received many of these services and amenities at no additional charge in the past.

The Desert Rose Resort in Las Vegas, for example, initiated a "Green Package" where guests saved up to 20% off rack room rate in exchange for housekeeping service being limited to daily trash removal. The property positioned this initiative creatively by drawing on the savings of water, detergent and the growing concern over a consumers' carbon footprint while saving labor dollars and wear and tear on towels, sheets, etc.

The initiation of service fees or resort fees is a way of adding to a property's bottom line by tacking various surcharges onto a guest's bill on the back end as opposed to rolling them into the nightly rate thereby giving the impression of a lower nightly rate. An obvious caution to this practice is that these types of initiatives, when not presented appropriately, can cause guest complaints, billing disputes, and negative reviews of a property.

The Planet Hollywood Resort and Casino, also in Las Vegas, recently initiated a resort charge fee which is helping to add to the hotel's bottom line revenue while simultaneously adding value to a guest's stay. While the charge is mandatory, guests are able to take advantage of complimentary local phone calls (previously $1.00+), daily newspaper (previously not offered), complimentary bottled water (previously $5.00) as well as other hotel features. When presented in this light, guests have been much more understanding of the charge and are less likely to log negative reviews of the property after seeing the built-in value of this particular type of charge.

Yet another strategy for building value is reaching out to online travel agencies such as Expedia, Travelocity and Hotwire as well as well-established travel wholesalers to creatively adjust their margins on room sales to present various offers in a more flattering light. For example, instead of offering 25% off room rates, this offer might be marketed as a second night half off or a third night free. With this type of initiative, all parties are still making revenues and consumers are seeing what appear to be fresh new offers.

Conclusion

The bottom line in this situation: The fittest will survive. The hotels, resorts and attractions that are most creative in presenting special offers to their consumers will fare the best through this economic slump.

Also important to remember is that when creating new promotions and marketing strategies, reinventing the wheel and thinking outside of the box are not the same concepts. It is important for sales and marketing teams to work together to develop new and unique promotional concepts. But the underlying appeal remains the same; consumers are attracted to value.

Luckily, we work in an industry that offers fun, recreation and relaxation to the public which means that our consumers want to come back. Families want to take vacations and couples are still looking for those romantic getaways. Eventually, we will again be in a position to charge a premium for these types of services, but patience with the marketplace now and a keen insight into what consumers value most will get us through the current situation. ✧

(Dustin T. Personius is the domestic leisure sales manager for the 2,567 room Planet Hollywood Resort and Casino, A Starwood Resort in Las Vegas, Nevada. Most recently, he was the call center manager for this resort where his department handled an average of 1,100 reservation inquiries on a daily basis. E-mail: dpersonius@planethollywood.com.)