Hotel&Motel Management

Tap into the hidden revenue in your room inventory

February 18, 2010
By Bonnie Buckhiester
Hotel and Motel Management

As a revenue management consultant, I'm barraged with questions about how to handle price wars and imprudent competitive pricing tactics. Strategically changing business mix and tactically "doing the math" before resorting to price reductions is always my recommendation. But regardless of this advice—and that of practically every expert in our industry—price wars prevail in virtually every market.

There are innumerable strategies to combat the self-inflicted wounds of price wars, but one of my favorites involves re-evaluating the price/value relationship of room inventory. In revenue management terms, this is called inventory stratification. The premise is to identify the price/value relationship of each room type and leverage this based on the guest's perception of value.

One would think this would be a no-brainer, but it's rare that I walk into a hotel that has a perfectly fine-tuned product stratification. More often than not there's either untapped value or an attempt to try to create value where none exists. Inevitably, room inventory is either overstratified or understratified; i.e. too many room categories or too few. A hotel with too few room types is missing opportunities to leverage more popular room product. One with too many is trying to leverage a room attribute that simply is not perceived by the guest as having any value.

Here's an example I came across recently of a hotel with too few room categories: In this example, the absolute value of the room inventory was increased by 1.28 percent or almost $75,000, simply by recognizing that the park view was more popular and guests would pay more to be on that side of the building. As a city-center property, this hotel really didn't think the guest would pay more for a park view because the park was relatively small and certainly not a landmark. But when employees were asked about which rooms were most popular and why, the park view was the first answer.

The reverse of this scenario is over-stratification, where a hotel attempts to leverage a room category with a questionable value proposition. For example, I was staying in a hotel recently that charged more for the higher floors. Unfortunately, this was a constant source of negative guest feedback and many of these rooms were filled with so-called upgrades. The hotel added breakfast, increased the price, and now sells this room category with ease.

These initiatives seem simple and more like common sense than strategy, but hotels often miss out on the hidden revenue in their room product. A good way to detect revenue opportunities is to look at revenue per available room by room type.

A low RevPAR is the surest sign of a value proposition out of alignment. And for those skeptics who work in branded hotels and offer upgrades to preferred guests as a policy, I say establish a solid value proposition, sell the room category for what it's worth, and there won't be any upgrades available at check-in time. If you don't think you're leaving money on the table, just track the value of upgrades for a month—I'll be highly surprised if you don't find some revenue worth recovering.