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Winning the price war

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Editor's note: This is the first installment in a two-part column about price wars and rate resistance. Read "Rate resistance, so now what?."

During the past 12 weeks, I've worked with hotels in 11 different cities in the U.S., Canada and the Caribbean. These hotels are large and small, branded and unbranded, city center and resort, and in markets as diverse as New Orleans, Toronto, Las Vegas and Moose Jaw (in Saskatchewan). The hotels had average rates as low as US$40 and as high as US$1,000. Of all the revenue-management topics I addressed, price was the burning issue on every hotelier's mind. City after city, the question remained the same: "What do I do when my competitor keeps dropping price?"

Bonnie Buckhiester

There's no silver bullet solution to this dilemma. It reminds me of something U.S. Secretary of Defense Robert Gates said in a speech recently. He had worked for eight different presidents, and when a situation reaches the president, there are no good solutions. If there had been, someone would have thought of it already and taken credit for it. When a situation reaches the president, there's only the option to choose the least bad of all possible solutions.

I don't minimize or trivialize the reality of the price wars playing out in markets throughout the world, but there are options for hoteliers embroiled in these wars that are much less damaging than dropping price.

There's a big difference between dropping price and lowering average daily rate. A shift in business mix might dilute the ADR when no prices are changed. A shift in mix is a tried-and-true strategy hoteliers have used for years. Perhaps the most common is a hotel that decides to take an airline crew to establish base business when in good times they likely would try to get rid of crew business. This is an example of long-term strategic business mix manipulation thought out and executed well in advance.

There are many medium-term strategic solutions and short-term tactical solutions to price wars. Before you drop price, answer these questions:

- Are you detecting rate resistance?
- Are you comparing apples to apples? (Market intelligence reports compare price to price—not product to product.)
- Is this your customer? (Do you want this guest in your hotel walking across the lobby with a cooler and a six-pack?)
- Where does the customer position you? (If you stood in your lobby on a busy check-out day and asked your guests, "Where would you have stayed last night had we no availability?" you might be surprised who your guests think your competitors are.)
- What does staff think the price point should be?
- Does the competitor's price make sense?
- Have you been tracking turn-downs and denials?
- Have you conducted a break-even analysis to determine if a lower price is even worthwhile?

With the increasing percentage of online bookings, it's difficult to accurately read the rate-resistance level, but many hotels have this data from central-reservation and property-management systems. At the least, an old-fashioned reservation tracking sheet helps gauge resistance. In the example below, business isn't being turned away because the hotel is sold out, it's because of stay controls, room-type availability and rate resistance.

Sample Daily Reservation Call Tracking Sheet

Month:	May		Today's Date:	22-Apr-09	
Year:	2009		Agent Name:	Susan	

Day	Date	Denied due to Stay Control	Denied due to Rate Resistance	Denied due to Rm. Type not Avail.	Denied due to Sold Out
Fri	1				
Sat	2				
Sun	3				
Mon	4		//		
Tue	5		//	/	
Wed	6		//	//	
Thu	7		/	/	
Fri	8		///		
Sat	9		///		
Sun	10		////		
Mon	11		//		
Tue	12		/	//	
Wed	13	////	/	//	
Thu	14				
Fri	15				

Total Calls	
///// ///// ///// ///// ///// ///// ///// ///// ///// ///	
Total	48

Non Revenue Generating Calls	
///// ///// ///// ///// /	
Total	21

If price resistance is the problem, the first choice is to add value before dropping price. The next is to ensure, beyond a shadow of a doubt, any promotional rate is fenced properly. Fences are tactics applied to rates to prevent one segment of demand from buying down into the next. In broad terms, there are four types of fences:

1. Product: Limit the offer to certain room types.
2. Availability: Offer better deals on longer stays. We see these promotions constantly with resorts. E.g. pay for five nights, stay seven, et cetera.
3. Customer: Limit the offer to repeat guests as a reward.
4. Transaction: Provide a restricted booking window for a stay over a specific period of time.

I've witnessed highly successful promotional specials and ones that were disasters, creating huge trade-down. The result always is related to how well the offer has been fenced.

Read the second installment of this two-part column, "Rate resistance, so now what?."