

Managing revenue in a down market



Serge Chamelian, managing partner, h-hotelier, takes a closer look at crisis management in the second of a two part series

During the economic downturn, demand declines and market prices decrease adversely impacting profit margins. In this challenging environment, what is the right strategy for managing pricing and demand: a focus on short-term revenue or long-term growth?

As managers are concerned about price-related issues when business slows, they tend to offer more discounts to meet revenue targets. It is important to emphasize that large and non-systematic discounting may harm a business in the short and long run. In the short run, the demand level captured through low prices is not enough to offset the lost revenues as a result of discounting. In the long run, customer expectations are affected as managers' future ability to modify the pricing policies lessens.

There are several levers at hotels' disposal to reduce the decline in revenue per available room (RevPar). These (price and non-price approaches) are discussed below.

Use better pricing

Cutting prices across the board is not a key to success as this strategy impacts customers' perceived value of the business, which makes it difficult for hotels to recover their preliminary positioning when better times come around. Rather, hotels must focus on particular market segments and distribution channels as rate

decreases should be targeted and differentiated.

Set intelligent pricing strategies

Pricing strategies must be used to result in advantageous redistribution of business such as: use of last minute promotions; open early bird rates at an aggressive level, long in advance; discount contracted rates rather than public rates; and use fencing to support rate differentiation strategies aimed at boosting average room rate (ARR).

These pricing strategies lead customers with specific requirements to certain rate types and conditions.

Develop smart customer loyalty schemes

A valuable source of information is available through customer profiles that allow hotels to develop loyalty through customized packaging and bundling of their products and services. This strategy results in gains achieved by both the customer and the hotel.

Assess your current and prospective customers

Price sensitivity of certain market segments and the possible emergence of new segments if new rates are offered are crucial factors to consider. Discounted rates should be directed at price sensitive market segments and rate fences should be created to avoid less price-sensitive customers from purchasing products at discounted rates. In addition, the hotel should



Park Regis Kris Kin Hotel Dubai

recognize potential market segments interested in a selected discount and determine whether it is a market segment that fits in with the hotel brand image and positioning.

Use opaque distribution channels

The use of opaque distribution channels (such as priceline.com and hotwire.com) allows hotels to offer discounts that are hidden to the customer. This strategy protects both the hotel's brand image and customers.

In a crisis situation, doing nothing is not an option. Taking short term actions, which produce modest benefits, might make you feel you are doing something effective and valuable, but consider whether or not they end up damaging the relationship you have and might have in the future with your customers. For the longer term, hotels should focus in retaining and acquiring profitable customers to survive during and prosper after the downturn.

Hotels try to keep profit margins up during hard times and seize this opportunity to attract new customers through intelligent loyalty schemes and appropriate discounting (as discussed above). As a result, hotels expect to retain these customers once the downturn is over.

To conclude, discounting and pricing strategies must be dealt with carefully during a market downturn. Success is established by hotels that are able to define short term pricing improvements through the implementation of some of the key ingredients of successful crisis management such as rate differentiation, fencing, adoption of loyalty programs, smart bundling, opaque distribution channels and development additional market segment. ■
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5 minutes with

Scott Butcher, general manager, Park Regis Kris Kin Hotel Dubai, who believes delegating within a hotel is an extremely important function of the management process.



Why, you may ask? It is just not possible within a hotel structure to do everything yourself. Think of a hotel as a living organism. It operates 7 days a week, 24 hours a day. Within this organism there are departments that have various areas and specialized functions. And then within these departments there are various levels, with different areas of responsibility.

As a general manager you delegate to the departments and their section heads and they in turn delegate. Particularly when you are dealing with hundreds of guests a day and thousands of interactions. Delegation and the monitoring of that delegation are therefore important facets of our daily routine.

However, the one thing that you cannot do is to delegate your responsibility. Empower them, give them the necessary resources but at the end of the day it is the general manager that is ultimately responsible to the ultimate judge, which is the guest.

To ensure that everything goes right you have to delegate wisely bearing in mind the capability and capacity of the department or person responsible. Just bear in mind that you cannot hide behind a delegated task or activity and say that another person is responsible.
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