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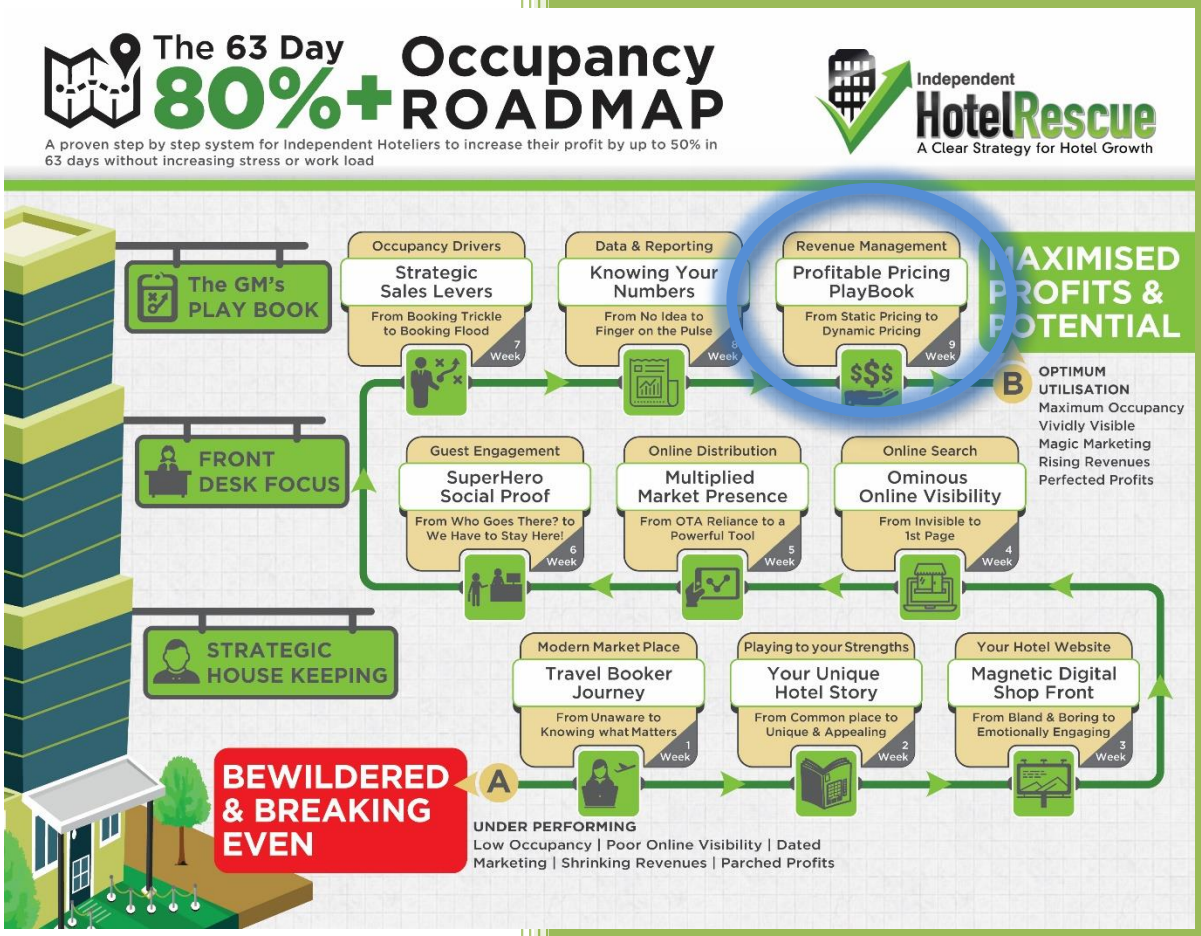
A Clear Path to Growth

63 Day 80%+ Occupancy ROADMAP



Module 9

Profitable Pricing Playbook

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Hotel Rescue 2017

Profitable Pricing Playbook

From Static Pricing to Dynamic Pricing

Section 1.

Pricing Trends

Gone are the days of setting your room price years, months or weeks out, and just forgetting about it. With the emergence of Revenue Management and the internet over the past 20 or so years, hoteliers cannot afford NOT to set their prices of their rooms dynamically, and therefore ensure they get the most out of the demand and supply game.

The act of yielding your property is to sell the right room, at the right rate at the right time. In owning/managing a Hotel/Motel you understand that you have a perishable stock item. If you don't sell that room today, then you can't sell it tomorrow. The opportunity is lost! And so it is inevitable, that supply and demand has a high impact on the pricing. In the airline industry, seats increase in price as fewer are left available on a plane. In the car rental industry, prices increase as demand increases. So too is the case in the hotel game… or at least it should be.

Equally when demand is low, prices can be dropped to try and secure a percentage of the demand that is there, or perhaps dropped with the intention of trying to stimulate the market and create some travel activity and hence sell some of the perishable stock.

There are many factors at play when it comes to yielding a property. From understanding historical patterns, demand levels, knowing forward bookings, lead times and expected pick up rates as well as monitoring major events and competitor activity just to name a few.

By capturing historical statistics, watching your competitors pricing, accurate forecasting and often using a bit of "gut feel", **hoteliers can fluctuate pricing for each night, based on demand in the marketplace**. For some properties and markets, this may be more variable than others. Most capital city hotels will have sophisticated Revenue Management software and dedicated Revenue Managers watching the demand (or sometimes the lack thereof) for any and every specific day 365 days or further forward. As a result the pricing of the rooms will vary greatly, and fluctuate many times in the lead up to each night. In some markets and properties the fluctuation may not be as prominent, but hoteliers would be remiss not to take advantage of increased demand and leaving money on the table.

Channel	Property	09/23/16'	09/24/16'	09/25/16'	09/26/16'	09/27/16'	09/28/16'	09/29/16'	09/30/16'	10/01/16'	10/02/16'	10/03/16'
Booking.com	Hotel 1	164	519	209	249	349	299	299	299	559	399	209
	Hotel 2	199	599	199	239	339	359	259	259	579	379	259
	Hotel 3	239	449	239	239	419	409	269	399	559	389	249
	Hotel 4	189	439	199	239	329	275	199	239	484	404	179
	Hotel 5	225	425	195	195	245	295	295	275	485	395	225
	Hotel 6	194	394	194	214	294	294	233	269	--	--	233
	Hotel 7	184	374	184	204	242	224	204	204	--	359	184
	Hotel 8	224	399	194	234	354	354	278	314	539	359	194
	Hotel 9	408	513	203	290	341	--	--	298	434	372	248

The table above shows pricing of 9 Sydney hotels on Booking.com over a 10 day period. As you can see each hotel fluctuate rates greatly. Green highlights the highest price for each property during the 10 day period. Red is the lowest.

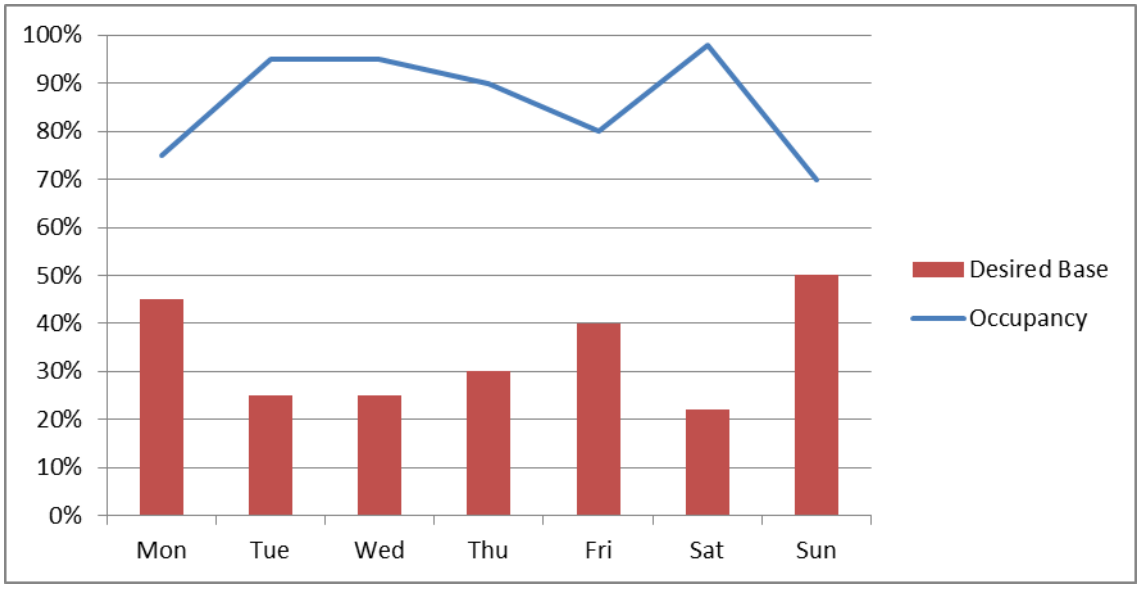
Section 2.

Still Room for Static

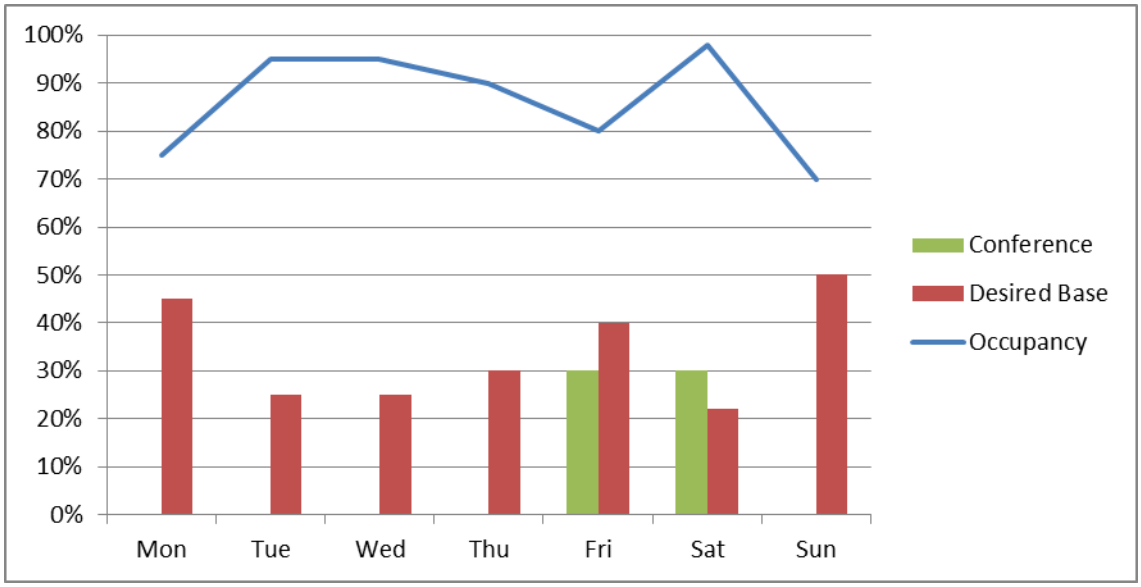
Most successful accommodation providers do not put all their eggs in one basket, by relying on all of their business to come via dynamic pricing channels (this is typically publically available channels such as your own website, OTA's, Metasearch sites and GDS and direct at the property). They also build some **"base business"** that typically is secured further out and at discounted rates. Whilst this may be secured via the above channels, and can be of a dynamic nature, typically it comes in as "easy wins" in a bulk (group) fashion or via allotments, offered with static rates.

How should I build a base?

The amount of 'base business' you may require varies from property to property and market to market. In fact, most properties have a day of week pattern, suggesting that you may not need as much base business on some days as others. For example, many city locations have strong corporate mid-week demand, and maybe strong Saturdays, however Sundays, Mondays and Fridays are tougher to fill. So they may need more base business on those days than others. The graph below demonstrates this in a very simplistic way. Time of year may also have an impact (eg winter months may require more base than summer or vice versa).



It would be handy if properties could simply pick and choose the base business that they require, but of course it is not that easy. At times you may need to sacrifice some occupancy on a higher demand day, in order to secure base for a lower demand day. In the following example, the property has secured a conference that takes up 20% of the room stock over a Friday and Saturday night. Typically they would not need that many rooms of base business to ensure filling on a Saturday night, but at a decent price, it may be worth taking this business, to give you a better chance in filling the hotel on the Friday night as well.



Why should I build base

It would be very nerve racking to wait until the last minute to secure business into your property. You can do all the planning and forecasting in the world, but if you do not have any base business on the books, you are completely at the mercy of the demand in the market. If demand is lower than expected, chances are your competitors will lower their rates to see if they can secure a bigger piece of the pie. If one property drops their public rates, so will the rest. So if you build some base business into your holdings, you will be less reliant on the public prices (and more importantly demand) available to the consumer last minute, thus less exposed.

The key is to find a balance, because of course, when the demand is high, the situation above will be reversed. Competitors will lift their rates, and so will you. If you have too much base, that means you will have left money on the table, as you could have secured more business at a higher rate, typically last minute.

What type of business for base?

Typically base is built with business that has long lead times. If your property has conference facilities, attracting residential conferencing business is ideal, as spend in the hotel will typically be high. Other group business, such as external conferencing, inbound groups, domestic wholesale groups (such as bus tours etc), Crew (eg Airline or Rail crew) and wholesale allotment business are all common types of business that is typically longer lead and ideal to build base business in your property.

As mentioned above, it is possible to build base with dynamic pricing via public channels as well, by forcing longer lead times out of the customer, through discounted pricing and strict deposit and cancellation rules.

Whilst you may be lucky and secure some of the above business at higher than usual rates, typically most of the base building business comes in at lower rates. It is a win-win scenario, where the supplier (you) can build some base into your business, and the customer gets a deal!

Section 3.

Knowing Your Lead Times

Lead Time is the typical (or average) number of days that bookings are made before the said arrival date. To put simply, if on the 25th December this year we took just 2 bookings, one made 20 days prior to arrival and one made 10 days prior to arrival, then our average lead time would be 15 days. To calculate the lead time for an individual booking, simply subtract the arrival date from the booking date. So if you made a booking on the 1st October for an arrival day of 8th October, the lead time is 7 days (8 minus 1).

Clearly, this can get complicated very quickly when you add more bookings and a longer window such as a week or month or year. It is really powerful to measure and record 4 typical lead times:

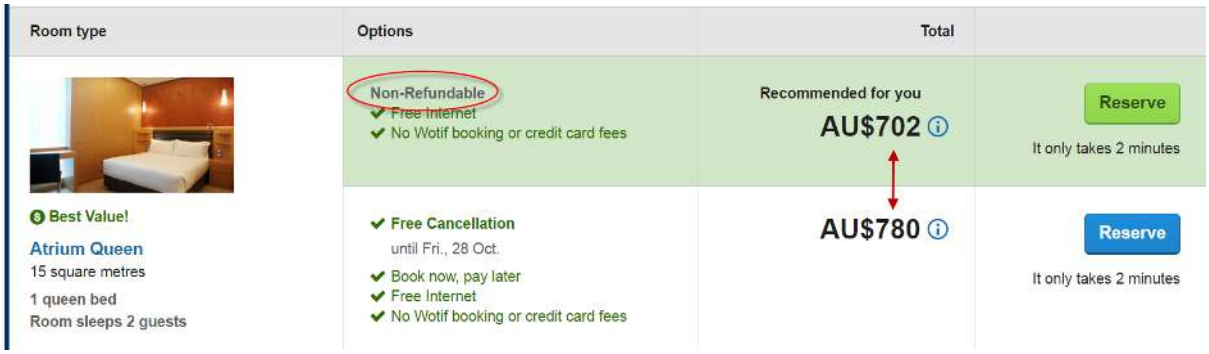
1. Average Lead Time for the whole year – this just gives you a feel for things and a broad bench mark to use.
2. Average Lead Time for each calendar month
3. Average Lead Time for any known seasonal peaks/troughs or major event periods
4. Average Lead Time for each day of the week (you can often bracket this into weekday and weekend)

What can I do with this information? Many yielding decisions can and should be based on knowing booking patterns based on average lead time. You can adjust rates and rate structures for specific dates or time periods, if you know when you can expect the bulk of the bookings will be made.

Why is this important in my property you may ask?

Many properties adjust their rates to appeal to certain booking patterns. As a rule, the further out you receive a booking, the better for the business as you can plan and forecast accordingly (see "Base business" section above). So as to encourage the booker, many properties offer a discount for early bookers (Advance Purchase Rates – APR). This may be as little as 5% or $5 but often more. In return the property can enforce a stricter cancellation policy (usually no cancellation or changes allowed), to ensure they "lock the customer in". How far out the APR is made available is dependent on the lead time of the property. If most bookings are made inside 5 or 7 days, it would be advisable to set the APR outside of 7 days.

It is important that the message of the fact that a discounted rate is made available to the booker, and the accompanying cancellation rules for the rates are clearly communicated, otherwise the customer will be none the wiser. You are trying to educate the customer that they should book further out to get the best rate.

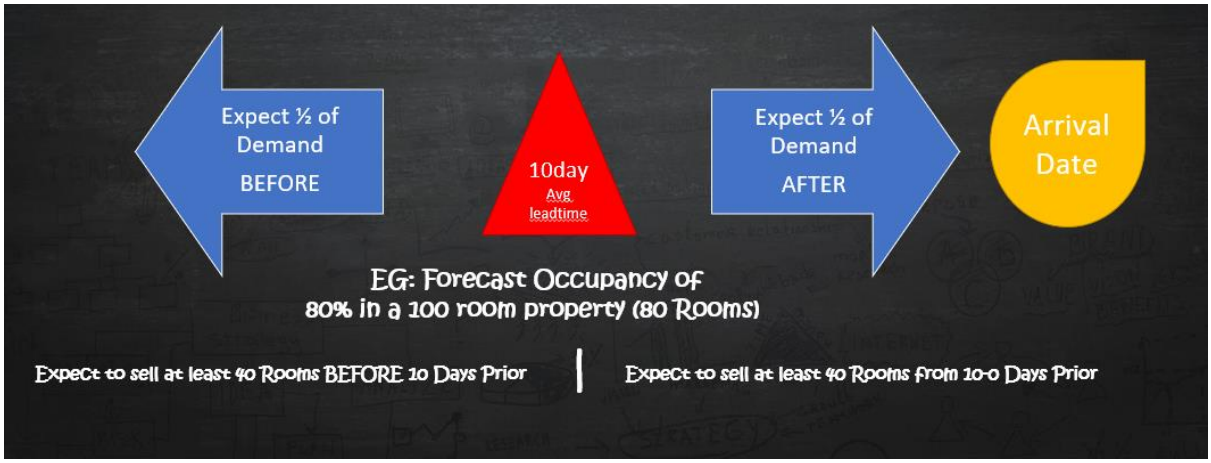


To keep a track of trends, it is worth monitoring lead times regularly, remembering that not only do they fluctuate by time of the year, but also by day of the week.

Practical Application of Lead Times

By capturing and recording your average lead times as appropriate to your property, the next step is to actually apply the intelligence to your pricing strategy. In its simplest form here is how use of lead time should work.

If your typical (preferably mode) lead time is, let's say 10 days, for a given period and your expected or targeted occupancy is say 100%. It stands to reason that you should be at 50% occupancy at least 10 days prior to arrival. If you are ahead of the curve, or behind the curve, this will help you make more informed pricing decisions. (More on this in section 5 under forecasting)



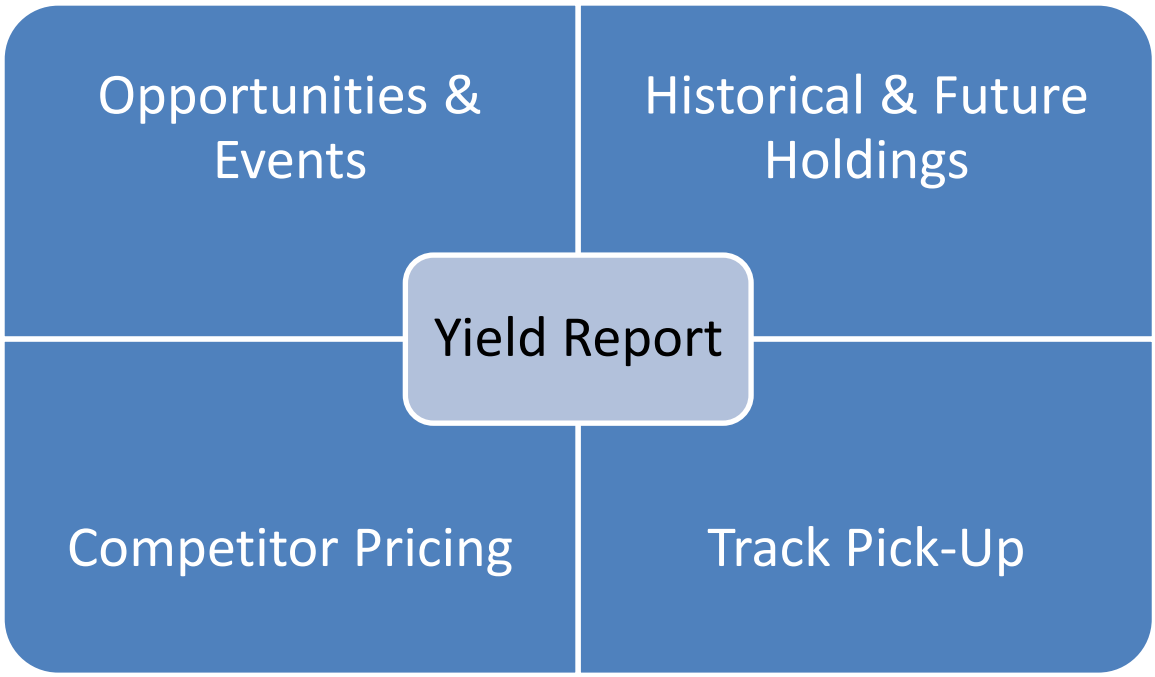
Section 4.

Getting Started With Dynamic

It may be a bit daunting and difficult to know where to start. I want to shift my rates, but to what, when, where and how?

1. Start by identifying your opportunities. Document each event that may influence the demand in your market. This may be a conference in the area, public event or simply a holiday.
2. Get to know your own numbers. This includes historical and future holdings. Keep your data accessible and update regularly.
3. Track pick-up by subtracting any previous holdings with your new holdings.
4. Get to know your competitors, and their pricing. You can do this manually, by "shopping" their website or an OTA (like Booking.com or Expedia). Keep a record of their pricing. It may become tedious to do this manually, so thankfully there is software around that will do the shopping for you. Rateshoppers like Pricegain (by Rategain) or TravelClick's Rate360 are example of sophisticated web based products that you can automate to shop various online channels such as OTA's, the GDS and each brand's own website. These of course do come at a cost. Some OTA's do offer their own rateshoppers, at low or no cost as does Siteminder.

It is recommended that you combine the 4 reports in the same document, in effect creating a "Yield Report". That way you can line up each day, to make it easier to track demand and opportunities.



Section 5.

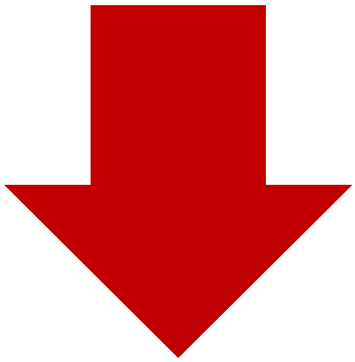
Yielding in Action

Once you feel you have educated yourself with your own numbers and demand in the market, below is a summary of some of the basic yielding actions that should/can be taken. Each item can be applied either very simply or on a more thorough level depending on the management style of the operator and the time constraints available to them. The good news is, we can leverage off technology to enhance a lot this these days, but it will still require some new habits and discipline to implement effectively.

Levers

You have 4 main levers to use when it comes to yielding

1. Rate – Increase or Decrease
2. Availability – Constrain or Release
3. Length of Stay – Minimum Restriction or Not
4. Terms & Conditions



High Demand

Increase Rates

Constrain Availability

Increase Length of Stay

Tighten T&C's

Low Demand

Decrease Rates

Release Availability

Decrease Length of Stay

Loosen T&C's

Historical familiarity

To start with you must have an understanding and some visibility of your historical performance to enable you to make smart decisions with your rates and availability. If you have a PMS (Property Management System), extract reports which give you this data. We suggest having it readily available and preferably right in front of the person taking bookings and making rate decisions (the combined report suggested in section 4 would take care of this perfectly).

It is valuable to look back over the past 2-4 years and discover any reservation patterns that you may be able to rely on. At the very least you should have last year's data right at your finger tips.

We suggest setting up at least weekly yield meetings with key personnel involved with day to day yielding decisions (General Managers, Front Office Managers, Sales Managers, Reservations Managers and of course Revenue Managers are often involved). Consider the past bookings in anticipation of what the few weeks ahead might bring.

When we talk about patterns, these include, but are not limited to Seasonal patterns, Day of week (DOW) patterns, Lead time patterns and Length of Stay (LOS) patterns. All of these and many more have an impact on your property's profitability.

In a best case scenario, you have collected data through the reservations and stay process to allow you to further analyse patterns of where bookings are coming from, both from a Geographical sense, and from a bookings sense (ie which source or channel the booking came from). These factors will greatly affect your profitability in a long term sense.

What we are looking for in these patterns is how your Occupancy, your ADR (Average Daily Rate) and your RevPar (Revenue Per Available Room) behave.

Forecasting

It's one thing to know historical performance, but another thing to be able to predict the future. And really that's what we're trying to do when we talk about forecasting . There are two key factors to consider when forecasting;

- **Forward Bookings (holdings)**
  Knowing your forward bookings is exactly as it sounds, simply knowing what has already been confirmed on the books. In most properties this is changing every hour, if not every minute, however your ability to have this data in front of you when making yield decision is important.

- **Expected Pick Up**
  Knowing your Forward Bookings & Average Lead Times helps you calculate your Expected Pick Up. Basically it is a formula, however doesn't need to be calculated precisely all the time. If for a given period;
  - Lead Time is 10 days

- Your expected Occupancy is 100% in a 10 room property

  You can expect that when you are 10 days out you should have approx. 5 rooms sold and can expect to 'pick up' another 5 rooms in the next 10 days.

This is where forecasting becomes useful. If for example you are trying to set rates for 10 days away from now. Using the above example, you are already holding 70% occupancy. You know from your historical data that you are expecting to fill at 100% occupancy. Your average lead time for that period is usually 10 days. So right now you are sitting smack bang on your average lead time but above your expected occupancy which (expecting 5 rooms sold, already at 7). Your expected pick up is another 5 rooms which would take you to 120%, so you could become confident that you will achieve 100% occupancy.

Forecasting Example

Total Rooms	10	
Expected/Targeted Rooms Sold	10	
Expected/Targeted Occupancy Result	100%	
Average/Mode Lead Time	10	days
Days Left	10	days
Rooms Sold (Holding)	7	
Current Occupancy	70%	
Expected Pickup	5	
Forecast Occupancy	120%	

This of course is a much simplified method of forecasting used purely to demonstrate the basic principal. Accurate and reliable forecasting can be done with a level of instinct, however best practice is certainly to build robust reporting mechanisms (often in excel or in your PMS) to delivery revenue and occupancy forecasts.

Now that you have some knowledge and confidence, yield decisions can be made. Do you place a minimum night stay restriction over the period? Do you increase rates? Do you hold back some rooms until your competitors sell out and then release closer to the date? All sorts of options open up when you have the right information in front of you.

Section 6.

Yield Operating Rhythm (Habits)

As mentioned earlier, we suggested setting up a regular yield meeting as part of an overall yield strategy. To take this a step further we suggest you begin to populate a regular schedule of habits, and consolidate it into a checklist to create yourself an operating rhythm. The exact inclusions in this rhythm will come from ideas from this engagement and ultimately need to be habits that are suited to your management style and skill sets.
Quite simply you could start with something that looks like below and add to it as required.

Yield Operating Rhythm

Daily	**Time Frame**	**Action**
Forward Scan & Adjust	Next 0-30 Days	Scan overnight holdings, pick up & competitor pricing changes – identify ahead of the curve and behind the curve opportunities.
		Adjust pricing and other yielding strategies
Weekly		
Yield Meeting with Team	Next 0-60 Days	Review a wider window into the next 60 days. ID Peaks & Troughs
		Holdings & 7 Day Pick Up
		Competitor Pricing, Event Impacts, Group Bookings, Opportunities, Promotions
Monthly	Up to 90 days Focus	Review a wider window into the next 90 days. ID Peaks & Troughs, macro adjust pricing or terms, compare with competitors
	Plus Macro view for next 12 months	Monthly Performance Report & Year on Year analysis & KPI's
		Lead Time famil, Event Identification
		Set pricing for Same month next year.

Experiments

To get a feel for how far you can push the boundaries on rate, you need to conduct some experiments first. As with any experiment, there has to be a hypothesis. For example, if I drop my rates does it actually increase booking pace? If I increase rates does it slow booking pace or does it remain the same? So, we can set up some testing by adjusting rates but we also need a control experiment, where rates remain unchanged.

Start by picking three normal looking demand periods. Maybe a Mon, Tue, Wed, Thu in a non-school holiday period and compare it to the following or prior week. The 3 periods should be sitting at around about the same forward booking level.

One period we adjust to a lower rates and the other, a slightly higher rate, and the other we leave as normal. Then we need to monitor what happened throughout and as an end result. You need to make good records of any adjustments you make throughout and monitor them closely and make notes as you see rooms pick up (or not).

We need to do this often but this will provide us great insight as to what we should or shouldn't be doing with rate. Note this is an advanced strategy that we can address once occupancy levels increase. It is also worth noting that these type of experiments may need to be run over and over. Just because something behaved in a certain way previously, does not mean they will again in the future.

Rate Strategy

So, once you have an understanding of everything outlined above, you need to make a decision on what is your overarching rate strategy.

Static – Rooms are always listed at the same price regardless of demand & forward bookings. This provides and easy management model, however leaves money on the table when it comes to profitability of the business.

Seasonal – A nice compromise between static & dynamic, requiring less work for management with regards to market watching and rate manipulation. Not suited to all property types, however can be implemented to a degree in most properties in combination with some market watching and semi-dynamic rate offerings.

Dynamic – Clearly the more involved and complex of the three, but brings with it the most reward and improvement to the bottom line, helps owners to maximise potential of their asset. There are many forms that a dynamic rate strategy can take and it will be different for every property.

As suggested above, a mix of the above strategies would often be the recommended way to go.

Day of Week pricing

When you track other hotel's pricing and watch market demand over a length of time, patterns often form. Day of week (DOW) fluctuations is one very common pattern. Many hotels have a spike in demand on Saturday night. Ensure you set your price accordingly. Many hotels also encounter

higher demand midweek, especially if they are in a location around lots of corporate business. Of course each property's demand patterns vary. We encourage each property to adjust their rates accordingly for higher demand days. Of course each individual day can, and should, be adjusted on its own merit.

On lower demand days, it may also pay off dropping price. *WARNING* This is not always recommended though. Some days may see low demand, yet a drop in price may not turn on more business. As a rule, leisure customers do react better to lowered pricing whilst corporates often don't. The effect price has on demand is often referred to as "rate sensitivity".

Rate Tiers & Rate Manipulation

If adopting a seasonal or dynamic rate strategy it can be helpful to create a "Rate Tier" for your property. Most properties have what is called a "Rack Rate" which is their top line rate to charge, but is rarely achieved. So starting with that concept as a bench mark, we suggest setting your "Rack Rate" and then creating tiers below that level. Sometime just 3 tiers is appropriate other times 5 tiers or more can be adopted. Example below

Tier	When to use	Example
Rack Rate (Tier 1)	Offer when confidence is building or high that you will achieve 90-100% occupancy	$159
Standard Rate (Tier 2)	The 'go to' rate for all advertising and rate loading before considering demand based pricing decisions.	$139
Discount Rate (Tier 3)	Drop to this rate to try to stimulate the market either well prior to expected lead times (to build base), or when holdings are low and you are with avg lead time windows.	$129

This is a much simplified example however can work effectively. A more detailed version with more tiers could be implemented to provide a wider selection of rates.
This would need to be applied to each room type and preferably printed up for display in the office/reservation area. The best delivery of a tier pricing structure is through a good PMS solution which helps to automate a lot of the work

NOTE: There may be some cases where a Rack Rate creates an unnecessary "rate ceiling" on your property. It is advisable that your strategies and systems are flexible enough that you can exceed rack rates if circumstances allow.

Fully Dynamic (flexible) Pricing Strategy

Rate tiers are an easy way to yield your property, but it can be proven that even greater gains can be made through a less structured approach. That is, using the above example, if demand is reasonably strong but you are not 100% confident you will book out, you elect not to increase your rates to the next tier and hence potentially miss the revenue increase. However if using flexible pricing you may add just 2 or 3 or 4 dollars to the rate and still sell out which effectively still gives you an increase in

revenue. When you multiply that out over all your room stock and 365 days a year the difference between tiered pricing and flexible pricing can be great.

Automated Rules

To help with your pricing decisions, many PMS' have rule based functionality that automate all this for you. Often they are set up with rules like:

If occupancy is under/over certain ? % , then reduce/increase rates by $fixed dollar amount / fixed%

There are multiple scenarios and rules you can create dependent upon the variables available. Usually the variables are:

Booking Range (eg next 0-3 days, 4-28days, 28days++)
Day of Week
Room Type

There is much we can learn from the automated systems, but whether you actually rely upon them or not is not the point. You could create similar rules for your property to follow regardless whether your PMS can do this already.

Below is pro-forma you could use;

SHORT Term	**Between**	**0**	**and**	**3**	**Days**
If Occupancy (HIGH) between	%		%	INCREASE Rates by	$ %
If Occupancy (LOW) between	%		%	DECREASE Rates by	$ %
MEDIUM Term	**Between**	**4**	**and**	**14**	**Days**
If Occupancy (HIGH) between	%		%	INCREASE Rates by	$ %
If Occupancy (LOW) between	%		%	DECREASE Rates by	$ %
LONG Term	**Between**	**15**	**and**	**90**	**Days**
If Occupancy (HIGH) between	%		%	INCREASE Rates by	$ %
If Occupancy (LOW) between	%		%	DECREASE Rates by	$ %

Taking Action

Clearly it is our preference that properties adopt a dynamic pricing strategy to maximise the opportunity in front of them each day. However regardless of how daunting this may (or may not) seem, we simply encourage you to get started with making some changes. The sooner you begin changing and trying to 'move with the market' the sooner you will begin to learn and gain a stronger feel for the market.

The key to yielding is confidence, and confidence comes from 'doing', so get started!

Section 7.

FRAMEWORKS

Explore the frameworks for Module # 8

Logon to the Hotel Growth Gurus Portal and download the available FRAMEWORK files.

Use the STRATEGY SELECTION TOOL to decide which frameworks to add to your MASTER HOTEL STRATEGY & Action Plan

1. Base Building Brickwork
2. Lead Time Formula - **MILESTONE**
3. Rate Tier Template
4. Events Calendar – **MILESTONE**
5. Yield Report Template – **MILESTONE**
6. Yield Levers Diagram

Sources

Section 2 – VFR Market Stats - http://www.destinationnsw.com.au/wp-content/uploads/2014/04/Total-NSW-snapshot-YE-Jun-16.pdf