Ms. Dickinson

Revenue Management

Top 5 Issues Impacting Revenue Management This Budget Season

By Kristie Dickinson, Senior Vice President, Business Development and Marketing, CHMWarnick

Revenue management continues to be one of the most important aspects of profitably operating a hotel, though it also remains one of the most difficult to grasp fully. Last year, I wrote an article on the Top 5 Questions Hotel Owners Should Be Asking About Revenue Management, which focused on conversations that owners should be having with their operators about setting goals, analyzing data and how best to measure results, all good primer leading up to budget season. To further the discussion, I will highlight some specific issues below that bear relevance in today's market and should be addressed as owners (or their asset managers) engage in conversations with operating teams about revenue management strategies and budgeted performance expectations for 2017.

2017 Outlook

Before diving into current issues, it may be helpful to review the industry outlook for next year, though there are some conflicting views on the horizon. While most pundits agree that positive RevPAR growth is still on the docket for 2017, the national US outlook reflects a decelerated rate of growth, or 'stabilizing to normalized levels,' as it has been described by some, which translates roughly into the 2 to 4 percent range, depending on the source. While RevPAR growth is still forecasted to be positive, recent lowering of projections across industry prognosticators has sparked wide debate on the trajectory of future growth. Let's just say I haven't heard this many references to natural land forms since my fifth grade geography class! How high is the peak? How long is the plateau? Clearly, the jury is still out, but this 'stabilized to normalized' forecast begs some key questions: a) how much RevPAR growth will actually be achievable in 2017; and, b) will it be enough?

Let's address the first question: how much RevPAR growth will be achievable in 2017? Spoiler alert…I don't know. What I do know is that there should be more questions surrounding how this will be accomplished going into to next year than we have asked in quite some time. Here's why: Let's presume that on a national basis, 2016 marks the industry's peak occupancy, and that all indications point to a stable at best to even a decline in occupancy for 2017. With occupancy growth off the table, that leaves ADR as the sole bread winner in the RevPAR growth equation for next year. So, in order to test the validity of budgeted growth for 2017, owners will need to take a very hard look at how management proposes to get there and, more importantly, ensures that the strategy is supportive of both top and bottom line goals. It also is worth noting that the national forecast reflects the average of many individual markets, and while we are told that the majority are expected to post gains, it is very much a market-by-market story, warranting close examination.

As the eternal optimist, I remain in the camp that 2017 will bring potential opportunity for continued ADR growth and, by extension, positive RevPAR movement, at least in most markets. In order to get there, however, there are several issues which will need to be discussed and vetted to truly understand the strategy of how we reach that goal line next year.

1. Corporate Business

The second quarter of 2016 already has seen a dip in corporate demand, and while the GDP outlook remains favorable, this is an area that owners will need to probe to understand both demand and rate potential in 2017. By the time this article is published, hotels actively will be engaged in corporate RFP season and should have a good handle on future committed room production and negotiated rates for the coming year. A couple of nuances for 2017 worthy of discussion. For starters, the jury is out on just how the Marriott/Starwood merger will impact corporate business at hotels, assuming China gives the deal the green light. One camp suggests that the merger will allow for greater pricing power given the stronghold the newly combined mega brand will have in major markets. So, if you own a Marriott or Starwood, that would be a plus in the rate column for you and even for other brands, assuming rates are set at a market high by which others can benchmark. However, another viewpoint is that the Marriott/Starwood merger, and this pricing power, may create an opportunity for other brands (Hilton, Hyatt, IHG, etc.) to gain market share, as corporate travel directives steer toward lower cost negotiated rates. Meaning, even if your hotel's brand is successful in negotiating higher rates for 2017, corporate travel directives may steer business elsewhere, based on rate.

Lastly, there is the possibility that corporate accounts that may have previously been loyal to one brand (Marriott or Starwood), now with more choice in the market, may actually dilute room night production that may have once funneled to a specific hotel. There is no definitive way to know exactly what will transpire next year, but a good place to start is with an examination of your corporate preferred accounts and production trends over the past 12 months. Have you noticed any trends that would suggest a decrease in room night production? How vulnerable is your hotel in light of the pending Marriott/Starwood merger? What can your management team do to better market to or service these guests? What will your rate strategy be by season, and how will that impact the overall targeted ADR? Have these assumptions be thought through and reflected in the budget for next year?

2. Competitive Set Changes

In an effort to preserve confidentiality and integrity of client data, particularly in light of recent and widespread consolidation of industry brand companies, STR announced in April 2016 a new set of guidelines for determining eligibility of competitive sets. If your hotel was affected by the recent STR guideline changes, you likely have already gone through the process of adjusting your competitive set to be in compliance. Going into 2017, however, it will be important to evaluate your hotel's new competitive set performance, understanding how the properties added or eliminated have impacted set performance, and re-calibrate your hotel's targets as necessary. For instance, in an effort to grow ADR, the management team will be doing a fair amount of benchmarking to the competition's ADR, both growth and real rate index. If your property has historically worked off of a target ADR index of 120 percent, the target may need to be raised if lower priced hotels have been factored in to your new set. Similarly, the room count of hotels added or deleted from your set may also have an impact on what targets should be established to reach specific goals in 2017.

These changes should not prohibit your team from hitting their targets, but recognizing potential limitations of this data as a means of strategizing and measuring performance will be important to stay on track. Market data is still valuable and can provide directional clues and trends as to where additional rate opportunity exists, but should be viewed as just one tool in the toolbox, and the metrics by which performance is evaluated may need to be adjusted based on recent changes. (As an aside, if your competitive set has been changed, it is important that corresponding language in the management contract is also updated, particularly in instances where RevPAR index is part of a performance test).

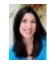
3. OTA Business

In an effort to reduce reliance on OTAs and the ever increasing cost of commissions paid to acquire guests, just about all of the major brands have recently launched campaigns to promote the benefits of booking direct on hotel websites. From Marriott's 'It Pays to Book Direct' to Hilton's 'Stop Clicking Around,' among other brand campaigns, the hook is providing the lowest rate on brand websites, period. Now, iron-clad parity clauses will tell you that this is a no-no in the OTA-world, for which there are repercussions. Brands contend that only 'loyalty guests' are eligible for these rates, and therefore these practices are not in violation with OTA agreements. While the OTAs and brands maintain an 'agree to disagree' outlook on the issue, OTAs have retaliated by playing with property rankings and also 'dimming' certain hotels in their search results. Dimming refers to stripping properties of images or other features that are proven to increase the likelihood of being clicked on during a search. Hotels even within the same brand have experienced varying degrees of OTA interference so it is difficult to assess exactly what the long-term impact will be.

Many even suggest that once there are enough brands are on board, dimming and other deterrents will only negatively impact OTAs' cut of revenues and will likely be discontinued. The point here is that for major branded hotels, room nights and ADR will need to be evaluated carefully going into next year, and whether as a result of dimming or successful share shifting through brand efforts, there may likely be a reduction of room nights budgeted from the OTA segment. So, what is the impact on ADR? Most OTA rates today are gross rates, meaning before commissions are paid. So, a reduction in OTA business, assuming it is reduced uniformly across all seasons, could result in a decrease in gross ADR. While this is not necessarily a bad thing if you believe it will be replaced by more profitable business (meaning you'll be netting more out of the rate), it still may translate into a lower rate overall.

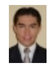
4. Brand Loyalty Business


The 5 Key Secrets to Capturing the Business Traveler
By Cheryle Pingel, Co-Founder and Chairman, Range Online Media


Boutique Hotel Trends 2011
By Didi Lutz, President, Didi Lutz PR


The Wired Hotel: Make Your Website 'Look to Book' Friendly
By Jerry Tarasofsky, CEO, iPerceptions Inc.


Expand Your Market - Capture the 'Non-Spa-Goer'
By Jane Segerberg, Founder & President, Segerberg Spa Consulting, LLC


Pairings: Chocolate with Wine?
By Juan Carlos Flores, Executive Sommelier, Pueblo Bonito Hotels Resorts & Spas


The Easiest Way to Achieve Your Goals - It's All in Your State of Mind
By Debbie Bermont, President, Source Communications


Poor Hiring Decisions Impact Your Bottom Line
By Doug Walner, President & CEO, Psychological Services, Inc.


The Six C's (Characteristics) of Successful Concierges
By Marjorie Silverman, Honorary President, UICH, Les Clefs d'Or


A Reputation Management Primer for Hotels: Answers to Your Top 13 Questions
By Josiah MacKenzie, Vice President , ReviewPro

To continue the discussion on the previous point, the inverse of today's OTA booking is a brand generated direct booking. If the brands are successful in generating more direct business, this is good, but again, to do so they are offering a discounted rate to loyalty guests. Strategy aside and speaking purely from an empirical standpoint, growing ADR in the category of reward guests may be difficult as they are now a) being offered a discount when they book direct; and b) it stands to reason that hotels will expect to see an increase in room nights from this segment, resulting from an increase in members now eligible for this new tier of rates. Many owners share the brand vision which is one of longer-term gain through recapturing control and ultimately reducing acquisition costs. Going into the 2017 budget, however, this is an area to be critical of if management is projecting significant year-over-year growth in ADR. Additionally, based on the increase in the number of reward guest stays experienced in 2016, consideration to increases in related brand expenses, including cost of upgrades and special amenities provided to reward guests, should also be factored into the budget.

5. Supply Growth

Nationally, supply growth is still considered to be in check…BUT, this varies greatly market-to-market with some locales, New York and Houston, among others, being impacted severely by increased market inventory. Regardless of whether your market is slated for major supply growth in 2017, gaining an understanding and assessing the potential impact of all changes to supply will be imperative. For example, while they may not add to the actual inventory within a given market, brand conversions will be something to watch this year, as will major product renovations, as both can serve to alter the competitive landscape. The discussion of the Marriott/Starwood merger also is relevant in this context, where hotels that were once competitive in the traditional sense (e.g. a Marriott vs. a Westin) may be even more so once under the same brand umbrella, as properties fight for share within the same loyalty group. Further, consider the competitive nature of hotels operating at higher or lower tiers than your own, that now may be vying for share under one unified brand company. However potentially (and hopefully) subtle the impact to your hotel's competitive position, these changes should be explored and addressed as part of the strategy. Lastly, the subject of much debate this year is the impact that the sharing economy is having on hotel performance, with most notable player, Airbnb.

Most see this wave of new and growing 'supply' as something certainly worth acknowledging, but has not yet been elevated to direct threat status. Notwithstanding, it will be something to watch even more closely this year, as occupancy has leveled off in most markets, and in particular the impact on the leisure segment. As discussions about supply occur, owners should tune in not only to what changes are anticipated (additions, conversions, renovations, peripheral accommodations, etc.), but how your operator has reflected these changes in the budget and what impact, if any, is anticipated. Equally important is how management plans to monitor and measure change, so strategies can be adjusted as the year progresses.

In closing, I'd like to circle back on the second question posed, which is: will 3 to 4 percent RevPAR growth be enough? First, let me define "enough" as revenue growth to support a continued trend in profit (EBITDA) growth, which at the end of the day is what owners care about most. Well, that will depend on the composition of the RevPAR growth and the team's ability to resist the urge to abandon pricing strategies at the first sign of a blip. Steadfast focus on preserving rate, which yields a much higher contribution to profit than its cost hungry counterpart, occupancy, is imperative. Obviously, you need both occupancy and rate, but nothing erodes profits more quickly than an early abandonment of rate strategy. Be confident and give your team the support it needs to take chances, stay steady and not sacrifice anything along the way. Also, remembering that operating costs, most notably labor among others, are increasing at a rate that could eclipse revenue growth sometime in the not too distant future also should help keep your feet to the fire in pursuit of profit gains in 2017 and hopefully beyond.

There are so many moving parts to the revenue management equation these days. I am convinced that no one has all the answers. But, I do believe that going into the year with eyes wide open as to the potential pitfalls and nuances, continually testing and evaluating the strategy along the way, is one step toward a pathway that will lead to profits in 2017.

Kristie Dickinson brings 25 years of hospitality industry experience to her current role as Senior Vice President for CHMWarnick (CHMW). Ms. Dickinson is responsible for corporate marketing, public relations and business development, as well as supporting strategic planning efforts for a client portfolio of more than 50 hotels. She specializes in revenue management practices, sales and marketing effectiveness and market positioning. Ms. Dickinson has worked with more than 200 hotels of all product types and brands, and understands how to identify opportunities for achieving client goals through CHMW's comprehensive suite of services. Ms. Dickinson is a contributing author to several industry publications. Ms. Dickinson can be contacted at 978-522-7002 or kdickinson@chmwarnick.com Please visit www.chmwarnick.com for more information. ***Extended Bio...***