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OWNER EQUITY BY CHAD CRANDELL
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Economics 101: What the heck happened to rate growth? (Part I)

(The views and opinions expressed in this blog are strictly those of the author.)
This is Part I of a series of blogs intended to explore current factors contributing to anemic rate growth. This is a complex riddle to solve, as hotel owners struggle to understand interests that support a profit-centric strategy versus those that detract from it.

Price elasticity of demand in the hospitality industry has been hotly debated over the years. Some experts believe that lowering room rates does not create but rather shifts demand among hotels, largely to the detriment of individual properties and markets as a whole. Others believe that the hospitality industry is not immune to the laws of economics and are convinced that as prices decrease, demand will increase. Others are somewhere in between, depending on practices, economic conditions and so forth.

In Part I of this blog series, I'm not looking to debate the price elasticity of demand, although I lean more towards the camp of "discounting is often more a race to the bottom as opposed to a empirically sound strategy." Rather, my question is simple:
If the industry is at record occupancy levels (all-time-high demand), why can't the industry seem to grow room rates?

First, let me answer my own question. WE CAN and we do, but it's not without a lot of work and re-strategizing around an entire ecosystem that seems to support an alternative strategy of growing "revenue," as opposed to profits, with occupancy leading the charge.

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Though the current economic environment would suggest that ADR growth should be supported, purely from a statistical standpoint, it's just not happening to the degree I think it should. Now, before we get sidetracked with a discussion of market-by-market supply changes and external disruptors like Airbnb and existing technology that offers consumers complete price transparency, I want to focus on a few things that fall under the control of property management and the brands that owners pay handsomely. I'll pose the following questions to spark the conversation:

- Are automated brand revenue management systems taking the decision-making power out of the hands of the experts, undermining their confidence to push rates by requiring an override of system recommendations?
- Have brands driven management to focus on hitting "revenue" goals by sacrificing profitability targets?
- Have competitor rates become the leading factor in a hotel's pricing strategy?
- Why are brand redemption rates still predicated on hitting an absurd occupancy level (~90%) that would never be an advisable operating threshold for any other reason than to seek maximum reimbursement for reward stays (which, by the way, owners have already paid for)?
- Have guests become so indifferent to the brand proposition that rate is now the leading differentiator?
- Have brands lost so much share to the OTAs that they must discount their own loyalty rates to compete?
- What impact has direct book discounting has had on YOY growth in BAR rates? (OTA shift or BAR rate erosion?)

I have an opinion on these matters (and many more questions to share), but am most interested in hearing from you. Why do you think it's so challenging to grow ADR with occupancy at an all-time high? Is the ability to set and project ADR gone? What should owners, brands and operating teams do about it?