HVS

MARKET REPORT

Hotel Pricing Trends This Winter

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As Indian hotels smarten up for business this winter, we look at some pricing trends that can be put to practice to allow recovery in business volumes and improved occupancy performance.

The cliché phrase "Global meltdown" is a convenient reference to describe the slow and low performance of the hotels in India in the first half of the current fiscal year. The months of September and October have traditionally been eyed by the hotel Sales teams as the best time to relook pricing structures and in the last five years the trend has always seen an upward revision in published room rates as well as negotiated corporate rates.

Times change, and as hotels look down the barrel this winter some emerging pricing trends seem to indicate a shift from the notional belief that a hotel's image is a reflection of its prevailing published rates. When business moved from good to great, much of the upside in performance was credited to individual brilliance on pricing strategies and optimum utilization of available revenue management tools. In current times when average vacancy rate is exceeding occupancy rates in many hotels, the cliché phase comes to rescue as an explanation. While some believe the "bottom" has been reached and now recovery will happen slowly, here are some pricing trends that may permit a quicker recovery:

"On line" to "on demand pricing" – Today concerns on inventory distribution have been addressed through the correct use of available technology. Benefits of on line distribution and constant up gradation of reservation and distribution engines have allowed the smallest hotels to be visible with the best. Individual hotel performance will now be dependent on the practice of "on demand pricing". The drop in demand for hotel accommodation (visibly in the more expensive category of rooms) very often means a high vacancy rate in the higher category rooms and suites. A hotel can overcome this hurdle by pricing based on two factors: actual demand and the competitive market offer, and not merely on the hotel's room categorization or past trends. People are still on the lookout for a good bargain or a deal –a habit created by the hotels themselves when they were riding the high waves. Reservation lead time has shrunk and hotels must match up to this by allowing the best deals to be available till they are taken and not vanish owing to pre-set time limits. Airlines are executing this at the moment, and while hotels cannot change to an *a la* all economy low-cost configuration, they can allow "on demand pricing" to bring back customers to their lobbies.

Occupancy over rate – This one is an easy phrase and has been conveniently utilized in the reverse order during the great times. The hard truth is that "occupancy over rate" as a strategy, is here to stay for this winter and Sales teams must take a moment to acknowledge this change. Traditionally, airline business was the largest segment to provide a base occupancy for hotels, but with drop in air traffic and regular route rationalization the total demand in each city from this segment has been shrinking. Demand from large infrastructure and development projects (very few active projects to write about in pan India) seems to in some way substitute this decline, but beyond this hotels will stand to gain if pricing options for bulk and extended stay segment allow for a cost build up approach and not a package or a meal plan approach. Let the customer pay for the services and features they require rather than what is planned as default service designs by hotels.

One look price appeal – with new hotel listing adding a new page every few months across third party web portals, price

filter options now allow customers to bunch up similar priced products. Gone are the times of listing three or four different room categories of a hotel; today, the decision lies in the first look price with the assumption that the product offer and the basic service design is common for the subset (these days bundled based on price first and then rating). Hotels who believe the internet is the most cost effective method of distribution for their business need to constantly carry out a dip stick check to see the results of their listing. Sometimes, a job done does not necessarily mean a job well done.

While these are some pricing trends that we believe will change the way most hotels sell this winter, it is interesting to note how in these low times, business circle discussions have fallen back to using rooms per day (RPD) as a relative index to compare performance with competitive hotels irrespective of the inventory of the hotel. New hotels opening soon will certainly eat into the RPD share of existing hotels and pricing will significantly be the decision maker for this switch. However, within the sea of hotel business decline stories across our cities, the *silver lining* is that hotels that price effectively for the remainder of the fiscal year will start to close up the year-on-year *RevPAR* gap. The "Global meltdown" washed away the best of the winter last year and in India the occupancy pinch was felt more since 26 November. Effective "on demand pricing" with the aim to bring the customer back to our hotels will be the flavor for the much anticipated recovery this winter.