HVS

MARKET REPORT

Yield Management in 2009: How to Keep Your Hotel Up and Running in a Downturn

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Yield management has always been a good idea for hotels, but one that recessed with years of record demand and record profits. Now that the downturn has many hotels fighting for survival, we need to bring yield management back to the foreground.

Industries worldwide shuddered as financial markets plunged in 2008, and the aftershocks are expected to linger well into 2009. The negative effects have led to some less-than-favorable forecasts for both lodging stocks and hotel operations in 2009. During this period of RevPAR stagnancy (or in many cases, decline), it is paramount for hoteliers and revenue managers to look beyond typical cost-cutting measures and utilize an effective yield management strategy.

Developing a Yield Management Strategy

Yield management (aka revenue management) provides a means to maximize revenue from a perishable product. How is a hotel "perishable?" Well, a year's worth of rooms inventory (i.e., total rooms × 365) dwindles with each passing day, and potential revenue for the year goes with it. Yield management practices help you preserve all the gains you can in terms of revenue versus expenses.

Effective yield management goes beyond sacrificing rate to book rooms and bolster RevPAR. Daily implementation of yield management tactics, guided by an informed overall strategy closely attuned to what's happening in the economy, is the final step of numerous phases. These include researching your hotel's market and submarkets, analyzing demand tendencies within these markets, and tracking the success of competitive hotels. This level of research helps hoteliers put additional heads in beds during traditionally slow periods, before or after major citywide events, or when competitive hotels are fully occupied.

An effective yield management strategy also requires access to important market data: How many hotel rooms are you competing with for business? How many new hotels have been proposed for your market? How will such things as the level of airport-passenger traffic or office absorption in your market affect occupancy at your hotel? With HVS providing key insights and formulating effective yield management strategy for your hotel, the general manager's focus can remain where it should: on efficient operations and superior customer service. The implementation is low cost, and the value to your bottom line can be substantial.

Putting Yield Management to Work

In principle, yield management tactics are fairly straightforward. In practice, they require you to be diligent, shrewd, and always on top of your game as a hotelier. Gone are the days of simply offering a rate discount to convention attendees in order to lengthen their stay beyond convention days. Today's hotelier must know the tendencies of each demand

segment and how to satisfy those tendencies in a way that maximizes profit. Offering solutions instead of discounts to parsimonious patrons has proven a far more effective way of encouraging them to stay, and stay longer, at your hotel. This is where an investment in yield management pays off.

A profitable yield management strategy also involves exploiting the best (and diminishing the least-efficient) aspects of a hotel's daily operation. Wholesale cost-cutting rarely proves effective because there aren't many viable areas, depending on a hotel's brand and service level, in which to make cuts: you can't close down one day a week to save on energy and maintenance; you can't shut down the pool just because only a handful of guests are there to swim; and you can't leave the front desk unmanned to save the cost of a shift.

Instead, leveraging some routine costs can be useful in bolstering hotel revenue. For example, costs associated with a hotel's breakfast buffet, including food preparation and waste disposal, will exist whether the hotel is fully or sparsely occupied on any given day—that is, the table could be all laid out but with too few guests to partake of what's offered. A "free breakfast" offering during slow periods can encourage more guests to stay at your hotel, improving overall revenue with only a marginal effect on food and beverage costs. Likewise, complimentary phone and Internet use are swiftly becoming the norm for negotiated corporate rates. As hoteliers cast their lines into the uncertain waters of 2009, such value-added amenities can prove an essential lure in capturing demand.

Going Forward

Yield management is a familiar mechanism, but one that may have grown rusty, kept in relative disuse as hospitality markets flourished with utter and seemingly never-ending abandon through 2007. Despite the sobering onset of the downturn, owners, management companies, and individual hotel managers can polish up their yield management tool kit, get cranking on a stratagem to keep their properties afloat in 2009, and put them ahead in the years beyond.

For nearly 30 years, HVS has seen the U.S. hotel industry grow, slide, and re-ascend, and we know what matters most for hoteliers in troubling times. We'll help you plan and implement a yield management strategy that can keep your net operating levels on par with those from previous years and raise net operating income as the economy regains momentum. Every day matters. Give us a call before another gets away. **512-698-7325, **