

MARKETING AND ASSOCIATED ACTIVITIES

7.1 INTRODUCTION

For most hotel companies, it was only during the 1980s that the word *marketing* was anything more than a euphemism for sales. Indeed, in the competitive landscape of the not too distant past, an aggressive and knowledgeable sales staff could accomplish most activities that related to putting guests in rooms. In the competitive environment of the present time, this has become impossible. Hotel companies that design and market a sophisticated inventory of hospitality services need a similarly sophisticated scheme for letting potential clientele know about their services.

For most hotel companies in the twenty-first century, true marketing has evolved to reflect this sophistication. This development also acknowledges increased sophistication on the part of guests and potential clientele. Business travelers, travel agents, and meeting

planners who represent and book group and convention business are educated and informed consumers. To serve this clientele, hotels have had to develop marketing efforts and product segmentation, first to interest the market, and second to allow people representing that market to make intelligent choices among competitors. Increasingly, individual consumers and small businesses are becoming more sophisticated in arranging their own travel plans over the Internet. This represents yet another challenge to hotel marketers: How do we market most efficiently to all groups? Good question.

Marketing has become an umbrella term that covers a number of strategic and tactical activities designed to tell the clientele the story of the hotel's services and to encourage that clientele to make choices based on how one hotel's marketing message matches their



needs better than the available alternatives. In any given hotel or hotel company, marketing includes a range of sales activities, public relations, advertising in all media, design of symbols and images, and (increasingly) the departments of convention services, reservations, revenue management, and, perhaps, catering.

It should be noted that research plays a major role in designing marketing strategies and tactics. The monograph presented in this edition by Bianca Grohmann and Eric Spangenberg has a research orientation at its core. It is designed to assist managers in choosing and generating data that are useful to staying successfully competitive. It is important that managers understand the range within which this data may be interpreted and applied. Successful managers and high-quality organizations are always seeking information and data that allow them to make accurate decisions and design effective marketing and managerial efforts.

These data can take a number of forms but, for the most part, deal with the characteristics of the hotel's target market segment that affect their choice of hotels. In this case, the research seeks to understand how consumers make choices among hotels based on the value of their various attributes.

Among other data that hotels find mechanisms to accumulate and interpret are these kinds:

- *Geographic*: what sorts of communities are represented; what parts of the country or world; how far people travel
- *Demographic*: age, sex, occupation, income, ethnicity, family, education
- *Psychographic*: client's self-image, social or peer group, lifestyle, personality traits
- *Behavioral*: whether the hotel choice is a routine or special occasion; what guest

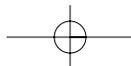
seeks in terms of quality, service, economy; user status (nonuser, ex-user, potential user, regular user, first-time user); usage rate (light, medium, heavy); loyalty (none, medium, strong, absolute)

While many of the specific details or programs implied under the marketing umbrella may be farmed out to agencies that specialize in advertising or public relations, the genesis of the hotel's strategic marketing plan must be within the hotel organization itself.

The article contributed to this section by Fletch Waller provides a strong argument for broadening the definition of *marketing* to include all operational aspects of the hotel. This article is an excellent overview of the marketing process. Waller illustrates the relationship between marketing and operations as a "continuing process" without which hotels probably cannot remain competitive.

Yield management, long a practice of the airline industry, has found total acceptance by hotel marketing and reservations systems. Indeed, it has become an industry standard. The article in this section by Paul Chappelle can be read in conjunction with that by Quain and LeBruto in Section 4 for a comprehensive primer on yield management. Together, these articles explore various aspects of that practice from the viewpoint of Chappelle, current practitioner. Chappelle lives the theory of yield and revenue management on a daily basis and provides insights about how it works in practice. As the revenue manager for over 30 hotels, Chappelle has the experience to back up the theory.

New for this edition, the Sinclair essay on hotel pricing should be read in the context of the issues and suggestions raised by the contributions on yield management. But it goes beyond that. Drawing on Sinclair's deep experience in hotel operations, particularly sales, this contemporary work on pricing is up



to date and useful not only from a conceptual standpoint but a practical one.

Shaw and Morris bring their collaborative talents in academe and industry to the essay on the organization of the sales function in hotels. Because, as noted elsewhere in this text many times, the potential markets for a hotel's services and the types of hotel are so numerous, sales efforts can be complicated. Shaw and Morris present this complex departmental function in a clear, straightforward fashion that is both theoretically relevant and operationally practical.

Traditionally, the function of public relations for any organization, particularly hotels, was oriented toward the generation of favorable—usually free—publicity and the suppression or management of bad news. Louis Richmond proposes the different and expanded but not necessarily contrary position that public relations activities can positively enhance the hotel's sales and marketing efforts. He discusses his experiences in the case of the Seattle Sheraton Hotel and Towers. Using that example, he argues that through creative cooperative efforts with local charity,

cultural, and volunteer organizations, hotels can serve the activities of those groups' fund-raising efforts and simultaneously position themselves to show the arbiters of potential business how well the hotel can perform. His examples are instructive. Richmond, who is president of his own very successful public relations firm in Seattle, retains the Sheraton and other hospitality concerns as clients.

All in all, the strategies, tactics, activities, personnel, and concepts described in articles and essays in this section provide an overview that only hints at everything important to effective management of the marketing function. Marketing is perhaps the most written-about topic in hospitality literature. Because of the great diversity of opinion, it can be argued that there is no one "right" way to market, nor is any single piece of literature generally considered seminal to hotel marketing. The reader is urged to consider the references cited by contributing authors, the suggested readings, and active perusal of recent hospitality journals to achieve greater understanding of this fascinating process—and, by extension, its management.

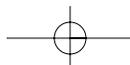
7.2 BUILDING MARKET LEADERSHIP: MARKETING AS PROCESS

Fletcher Waller

The hotel business has changed enormously over the last 30 years, embracing special niche forms of lodging (e.g., extended stay), new ways of segmenting markets (e.g., W's "fashionables"), brand proliferation and consolidation, new tools for acquiring customers (e.g., email), distribution innovations (e.g., Expedia), and globalization. These changes in mar-

kets and in ways hotels relate to and capitalize on them have put new demands on marketing.

Marketing, as addressed herein is not the sales and marketing department; I mean marketing in its broadest sense of how hotels respond to and seize on market opportunities. Definition? Marketing is a process of creating



and sustaining productive relationships with desirable customers. Its goal? To produce such relationships more effectively than competitors do.

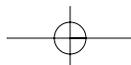
Let's examine the definition and its implications. Marketing is . . .

- . . . **a process** . . . A process, a series of functions and actions for approaching and dealing with opportunities. *Marketing*, as used herein, is not a job but a way of proceeding to create and operate a hotel focused on customers and competitors, a way that incorporates all members of the hotel staff and its support.
- . . . **of creating** . . . The essence of marketing is creation: imagination, insight, willingness to change and evolve, and, yes, discard.
- . . . **and sustaining** . . . Loyalty over time and repeat customers are the key to productivity and optimal contribution margins.
- . . . **productive relationships** . . . A relationship must be two-sided, with benefits for both partners in the relationship. In the case of customers, the benefits are wants and needs consistently fulfilled and full value received; in the case of staff, professional satisfaction and operating profits sufficient to fund improvements provide attractive compensation, and provide returns on investors' or owners' capital.

In the late 1990s, rising costs of acquiring customers in U.S. hotels were masked by strong increases in the average daily rate (ADR). In 1995, marketing costs per occupied room (franchise and marketing fees, commissions, reservation costs, and property marketing and sales expenses) in full-service hotels averaged 15.3 percent of ADR. By 2000, it had risen to 15.6 percent; that three-tenths of a point increase over four years hardly alarmed people. But consider, of the expenses that make up the costs of acquiring customers, only commissions vary directly with rate; most of the expenses are personnel compensation and benefits and purchases—of ads, brochures, sales calls, websites, global distribution system (GDS) delivery services, telephone time, and so on. These expenses grow over time, but not as a function of the

price for which a room is sold. If marketing were truly productive, we should have been seeing costs per unit dropping.

In dollar terms, full-service hotels saw marketing costs per occupied room balloon 38 percent in just five years, to \$17.96 in 2000 from \$12.99 per room-night in 1995! In higher-rated full-service hotels, acquisition costs rose to \$22.71 from \$15.86, a 43 percent increase. Resorts suffered a 27 percent increase, to \$22.96 from \$18.07 just five years earlier. By 2002, as rates and occupancies softened, marketing costs per occupied room in full-service hotels had begun to be reined in, at \$17.02, but now accounted for 16.4 percent of ADR (PKF's Trend Reports, 1996, 1998, 2001, 2003.) The main culprit is distribution costs. Whatever the cause, marketing productivity must be improved.



- . . . **with desirable customers.** Not all customers are equally desirable; we want those who are willing to pay, growing in numbers, making multiple purchases, and whose needs we are able to fully satisfy.

And the goal?

- . . . **To produce such relationships . . .** *Production* implies inputs, outputs, and the measurement of productivity. Marketing productivity has been lagging for the last decade; the rising costs of acquiring customers must be reined in. (*Note:* If marketing efforts are a cause of customer decisions to purchase, then marketing productivity is the cost of stimulating that purchase decision relative to the value of that decision. Productivity is best measured by the cost of acquiring a customer not only as a percent of sales but also as dollars per *unit* of sale—for example, dollars per occupied room, dollars per group contract, dollars per cover.)
- . . . **more effectively than competitors do.** Marketing success is judged in relative terms, using competitors and similar hotels as benchmarks. As a creative process, especially in a field like hospitality wherein innovations are unprotected and easily copied, the benchmarks and goals are always moving targets. Besting the competition is the constant challenge.

By the end of this chapter, it will be clear that successful marketing of a hotel requires the orchestration of a wide variety of talents and skills, of which sales and marketing personnel are only a part. Chain hotels approach the process one way; independents must do so another. But in either case, market success depends on an effective integration of marketing and operations at the property level under the direction and leadership of a market-driven general manager.

▶ THE MARKETING PROCESS

Peter Drucker (1974) says the purpose of operating a business is to create a customer and keep him (or her). Investors in a hotel may have return on investment as their purpose, but for us operators, it is useful to conceive our purpose as being to create and keep customers. If we do this successfully, profits and capital returns flow. Our marketing process is our way of creating and keeping customers.

Every business has a marketing process, a way it “goes to market.” It is the way management decides what they are going to do and offer, with whom they will compete, how they will attract the customers, and how they will satisfy and keep them. Most businesses, many hotels among them, do not reflect on and carefully articulate their marketing process; they just do their thing by habit and by tradition. Other businesses make concerted efforts to regularly plan and review their “going to market.”

A hotel is a 24/7 business, running without stop. Typically, because of the pressure just to keep up, we do what we’ve done in the past, repeating our marketing process by habit. This is risky, for customers and competitors are always changing. Does a hotel need a planned and regular review of its marketing process? Considering our high fixed costs and the large leverage on profits from small changes in revenues, yes—hotels *should* take concerted and disciplined care of their marketing process. For a hotel to remain effective, it should formally review its marketing process at least once a year to be sure it is still suited to its market; if it is not, revise it to fit changing customer and competitor patterns. Further, the hotel must measure the cost of acquiring its customers so as to steadily

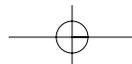


Figure 7.1 The Hotel Marketing Process

increase the productivity of its marketing process.

A hotel marketing process (Figure 7.1) starts with *deciding what to be and what to offer to whom*. This is not just for new hotels in pre-opening; existing hotels must adjust and fine-tune their offerings as market conditions change. The next step is to *set the price structure*. These first two steps establish the hotel's value proposition.

Next, *create awareness and stimulate demand* among the people you hope to make your customers. Then you must *make the hotel available* to them, and close the sale—that is, *commit, confirm, and manage revenue*. Flexible rate management within the pricing structure and response to short-term swings in demand and supply are necessary to create customers and optimize revenue per available room.

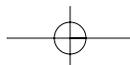
Now begins the transition to operations, but this is no less a part of the marketing process. In fact, this is the critical part of the process. You must *prepare the hotel staff* to meet and fully satisfy the wants and expecta-

tion of these customers you have attracted. Then you have to work to *retain those customers* and turn them into repeat loyalists. Lastly, you must *measure their satisfaction* and evaluate your performance.

Let's examine these steps and, along the way, comment on ways of improving their effectiveness and productivity.

► DECIDING WHAT TO BE AND WHAT TO OFFER TO WHOM

In an existing hotel, the developer and architect already may have decided many of the things it is—high-rise or resort, in the business center or on the edge of town, large rooms and baths or smallish, one restaurant or several, wood or marble, with ballroom or not, and so on. Even so, the management team must still consciously examine what they intend the hotel to be and offer to whom. The type of customer originally in mind may not



be available now in enough numbers to support the hotel. Perhaps a competitor has come in and taken away a piece of the market. Perhaps the business center has shifted to another part of the city. Perhaps new customers from Korea or California have replaced the original ones from Europe and the East Coast. Even though the owner has provided a basic envelope within which to operate, there still are options—many things the hotel team can control, many choices to be made on what to offer and to emphasize to various market segments. Is the hotel the place to be seen or the place that guards privacy? Is it better to stress family style or crisp, professional business style? Should the hotel add services, like a Japanese breakfast, to meet the needs of one particular group? Should the team put in meetings express and add more small meeting spaces to tap the short-lead-time corporate meetings market? Should it drop some services the market no longer wants to support?

The answers to what to be and offer are found by studying the *marketing situation*, which comprises three parts: (1) strengths and weaknesses, (2) the kinds and numbers of customers available in the marketplace, and (3) the other hotels with whom this hotel competes for these customers. Careful analysis yields a picture of which segments the hotel is best able to attract and serve. These become

the *target markets*—the “to whoms”—and their needs and wants become the “what to be’s.” The key to successfully deciding what to be and offer to whom is a matter of strategic selection of, focus on, and commitment to a well-defined set of markets for whom the hotel is best suited to compete. Trying to be all things to all potential customers is a guarantee of ineffectiveness.

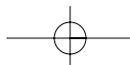
A good example of focus and targeting is Starwood’s W. At risk of turning off a sizeable portion of the business and leisure travel market and leaving families well behind, Starwood focuses tightly on a lifestyle segment of professional and business people, with remarkable success.

The talents required to assess the marketing situation, create a data model of the market’s segments, calculate a feasible share of each, and select the targets on which to focus are comfort with data, the ability to observe and infer, creativity, patience with detail, comfort with the hypothetical, and an analytic curiosity. Usually, such analyses are uncomfortably foreign to people with backgrounds in sales, and often to operators as well. It is essential that we teach, motivate, and reward curious, careful, insightful analysis of history and market information—skills that are not natural to those typically attracted to hospitality management.

IMPROVEMENT TIPS

- Send prospective general managers and directors of marketing to a marketing course, one with examples or cases in market analysis.
- Assign analytic exercises to a prospec-

tive director of marketing, like coming up with three options for cutting into the small business meetings of a competitor or increasing sales of the gift shop.



▶ SETTING PRICES

Having decided what to be and offer and to whom, the next most important decision is price. Pricing is a critical decision because it determines, first, whether or not the intended customers will purchase, and second, whether they will be satisfied with the value offered and, thus, be willing to return. Third, it determines whether the hotel will be financially healthy enough to maintain itself and reward its employees so customers can once again be satisfied when they do return.

Three factors must come into consideration in pricing—the Three Cs of pricing, if you will: costs, competition, and customers’ comfort zones. In F&B, costs drive pricing of menu items and beverages. Drucker (1999, 115–6) says American industry has too much cost-driven pricing, and that it needs more price-driven costing. Doesn’t F&B have the opportunity to build and test menus to discover where price points should be set, and is not the chef challenged to manage ingredients and portion size to deliver the cost and margin structure desired? Yet the cost-driven practice continues.

In rooms, competition is most often the dominant factor. Costs play a role, but changes in variable cost of an occupied room are generally small and rooms’ contribution margins are large, typically 65 percent or bet-

ter. Moreover, hotel accounting does not measure discounts from a standard price, as do almost all other industries. So there is no visible cost in reducing price to meet competitors. Remember: Any damn fool can cut his price, and some damn fool always will. Must everyone follow? No. The key is to get in the head of the customer. The truly controlling factor is customer comfort zones, and all too often hotel management leave money on the table because they don’t know what those comfort zones are. At what price does the offer attract and deliver value? That is the key question in setting prices.

Price setting requires talent and skill in data gathering and analysis, accounting and building pro formas, interpreting and drawing inferences, and decision making. Do not let salespeople set prices; do not let controllers set prices. Only one person—the GM—can pull together the inputs of sales, control, operations, reservations, and the rest, and make this crucial judgment call. Also, build at least three price scenarios and have the controller and marketing director agree on occupancy impacts. Then run a GOP pro forma on each. Out of that exercise will come a sense of the best pricing approach to take. Setting prices is the one task the GM cannot delegate, for he or she must live with and be accountable for all that results from this critical decision.

PRICING TIP

*I*nclude staffers in contact with customers in pricing discussions. *A ski resort owner-operator asked me to review his proposed price schedules. I asked to have included in our meeting a senior reservation*

agent, a bellman, a bartender, and a front desk agent. After probing them on what they heard from customers about value, we increased four of the seven proposed room type prices, to the owner-operator’s delight.



POSITIONING IN FIVE QUESTIONS

1. Who are the prospects; what do they like; how do we find them?
2. What do they now know or believe about us?
3. What, specifically, do we want them to do?

4. What do they need to come to believe so they will do that?
5. What reasons can we offer them to hold this new belief?

► CREATING AWARENESS AND STIMULATING DEMAND

Herein are the typical roles of the marketing department: using sales, communications, and promotions to attract the target markets. But creating awareness is not only marketing's job. Everything the public sees and hears about the hotel—its name or brand, its signs, its restaurants, the public activities of its managers, its charitable support and festivals—all create a meaning, a picture of what this hotel means and offers.

Starwood's *W* again offers an example: Every element of their presentation expresses the "to whom" they target. In decor, uniforms (costumes?), tone, and attitude, they focus and send a coherent message. It is critical that every department understands the target markets and agrees on the idea, the meaning the hotel intends to have for each of the target customer groups. This is called *positioning*; it's something done not to the product but to the mind of the prospect.

The team should prepare written positioning statements, including a compatible but individual positioning statement for each

market segment they intend to target. These statements are the blueprint against which each ad, promotion, and sales call is tested to assure consistent messages are being sent. And those statements should be shared with all employees. When all parts of the hotel are sending a coherent and consistent message of what the name or brand means and what underlying promise is being made, the hotel establishes a clear position in the mind of the prospects—ideally, one that is attractively distinctive from competitors.

Marketers can use a variety of tools to create awareness and stimulate demand—for example, sales blitzes, telemarketing, newspaper ads, Internet sites and ads, partnership alliances, radio ads, and price promotions. The marketing mix is the range and balance of tools selected and resources devoted to each to achieve the hotel's marketing goals.

In most hotels, direct selling is still the primary marketing tool used to create awareness and stimulate demand. There are two parts of effective direct selling: sales skills and sales management. Consider one the weapon, the other the shooter.

Sales skills are not natural; enthusiasm may be natural, liking to meet people may be natural, but selling is a process that anyone



SALES PRODUCTIVITY TIPS

- Track competitors' group commitments so that a market's uncommitted meeting spaces for future dates are foreseen, guiding pricing.

- Don't "be fair" by treating everyone the same; motivate each salesperson individually with incentives and attention suitable to his or her own style and need.

- Focus on team members who are below average, constantly improving the bottom and driving average production up.

- Don't just focus on room-nights. Calculate the number of contracts needed (using your average size of group) to fill the

annual room block and set goals for weekly contract production as well. This will balance the sense of importance among salespeople, whether assigned to large or small group segments.

- Don't waste sales talent on cold calling. Use a prospecting service to qualify leads; focus your selling power on prospects.

- Clean out files at least annually. Salespeople tend to hold on to prospects long after the likelihood of a booking has dwindled.

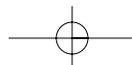
- Automate. Customer and booking management systems pay.

can learn and that must be practiced. Make sure your salespeople are taught how to research their prospect, to listen for needs and purposes, to acknowledge that they have heard the prospect, to transform relevant features into benefits and to sell the customer's success, to anticipate objections and prepare responses, to negotiate, to ask for the order, and to thank the customer and facilitate delivery.

Sales management is quite another thing; often (usually?) the top salesperson does not make the best sales manager. The sales manager must be able to select salespeople; reinforce their training; coach, counsel and motivate them; assign them to prospects and market segments; set goals, manage compensation, review performance; and troubleshoot. He or she must also be the gatekeeper on contracts and rates, making sure that inventory of group space is optimally committed.

Compensation of salespeople need not be complicated. *First principle:* Tie compensation to goals set in terms of what you want them to do—that is, produce contracts and room-nights. Don't just set room-night goals; add measures of relationship or share of a specific customer's business. Have salespeople suggest their own goals for the coming year; participation builds commitment. *Second:* Provide them near-term reward and reinforcement, not postponed rewards. Pay out bonuses quarterly. *Third:* Build teamwork so that one salesperson supports and encourages another. Add a team bonus multiplier to personal performance measures. *Last:* Separate performance bonuses from overall job appraisal. No one attends to suggestions for performance improvement if he or she has just received a big check for exceeding goal.

Many full-service hotels are over-resourced in group sales and under-weighted



in transient market tools. Sales efforts should be balanced with other parts of the marketing mix—advertising, publicity, and promotions.

The range of communication options increases geometrically with proliferation of new media—cable television, news magazines and national papers, the Internet, and direct mail and telemarketing. But the eyeballs are not growing apace, meaning the audience for any one medium is steadily shrinking, putting increasing demand on measures of productivity, care in allocating resources, and creativity to get through the clutter. As audiences of prospects become increasingly expensive to reach through advertising, the tools of publicity, the Internet, and direct marketing are increasingly the media of choice.

The Internet is a demanding medium for communication; use professional help to design, maintain, and market the hotel's website as though it were, itself, a product for which awareness must be created and demand stimulated. To draw audience to the site and manage its visibility in search engines are skills beyond the property team. Set specific goals for the site: They might be to attract qualified prospects, to sell services, to provide customer

service. Don't just have a site. And measure the experts against those goals. A passive, unmanaged, and undermarketed site is a waste of money.

Promotions can powerfully stimulate demand, but too often, price promotions are resorted to as a last-minute attempt to prop up a weak demand period. Promotions should be planned, justified on a breakeven basis, and used sparingly. Not all promotions need be price promotions; customers invest energy and time in transactions, too: value-added promotions that offer nonmonetary savings can be used to avoid habituating consumers to buying only on sale or shopping only on price. Well-forged alliances for copromotion can increase both productivity and absolute sales volume.

The skills and talents necessary in a comprehensive effort to create awareness and stimulate demand include:

- *In sales:* Initiative; being goal-directed; listening with empathy and imagination; time management; self-confidence.
- *In sales management:* Coaching and counseling; quantitative skills (for setting

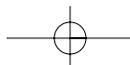
COMMUNICATION AND PROMOTION TIPS

- Run breakeven analyses on each ad or promotion, asking what percentage increase over normal unit sales it will take to return these dollars, using contribution margins, not revenues. Is that a reasonable expectation?

- Assign individual toll-free numbers to each ad and medium so response to each can be tracked.

- Don't ask if your GM likes an ad; ask if the intended prospect is likely to respond to it.

- Make sure the message the audience will take away is consistent with your basic positioning: what you intend to mean and offer to that market.



booking goals and recordkeeping); priority setting, time management, and sense of urgency; leadership and problem solving; ability to manage incentive programs.

- *In communications:* Ability to write clearly; ability to select, engage, and manage professional creative talents; ability to evaluate and allocate resources among options; comfort with and appreciation of the Internet and the Web.
- *In promotion:* Ability to analyze breakevens; creativity; anticipation; conceiving and selling partnerships and alliances.

▶ MAKING THE HOTEL AVAILABLE

Once a person in one of your target markets is interested in buying, how does he or she reach you? Your hotel's reservations office, the central reservation system, airline global distribution systems, corporate sales offices, and your property sales office are all parts of a distribution network. Travel agents, corporate travel managers and secretaries, meeting planners, and travelers themselves reach your hotel through this network.

Travel industry distribution channels are in chaos by virtue of the shift of travel agencies from commission to fee-for-service models, the rise of the Internet as a consumer's direct booking channel, and online third-party intermediaries like Expedia and Travelocity. Increasingly, the Internet will become your key distribution channel, but in the meantime, you must manage two parallel systems, the traditional central reservation and travel agency channels and the new electronic channels. Are the rooms you want to offer

available in both systems, with helpful and up-to-date information? Are your prices sensible in each outlet? Making the hotel available is no longer a passive stance but an active part of your marketing.

In other industries, distribution channel revolutions have brought efficiencies that benefit both consumers and suppliers. In the travel distribution revolution now underway, the consumer has benefited, but costs to hotels—the suppliers—have skyrocketed. Since 1993, full-service hotel costs of distribution (commissions, Global Distribution System fees, and reservation expenses) more than doubled, to \$1,377 per occupied room per year in 2002 (PKF, 2003).

Along with these new channels and third-party room merchants has come pressure on prices. In the downturn of 2001–2003, this was devastating. Price comparisons are quick and easy for the consumer. Packagers and auction sites, like Priceline.com, unconsciously cultivate the destructive idea that a hotel room is a commodity, as is an airline seat. But hotels are not commodities; each differs in location, features, and benefits. A hotel team must resist the idea that a room is a room is a room, must emphasize their hotel's distinctive positioning, and must resist the urge to simply match the lowest price offered.

For the foreseeable future, both the traditional and Internet-based distribution systems will coexist and have to be managed. This raises a new question: What channels do you want to encourage, and what ones discourage? Conventional wisdom, in recent years, has been to make the hotel's inventory and rates available via as many channels as possible so as to capture from anywhere in the world the last drop of demand for arrival on a given day. Given their sharply differing costs, however, and the difficulty of managing



TIPS FOR DISTRIBUTION PRODUCTIVITY

- Bid all groups on net price basis; do not commission meeting planning agencies.
- Analyze and understand the contribution margins achieved through each chan-

nel, not just the revenues and average rates. Consider differential prices by channel to equalize contribution margins after variable distribution costs.

coordinated presence in these new and overlapping channels, the time may be coming for a new strategy. One possibility is to starve undesirable channels with limited information and access while being fully open and transparent to others. Another approach might be to price differentially among channels to reflect their different costs. A large Hawaiian resort group is already doing that by explaining to consumers what comparative options and costs are. Other chains advertise a guarantee that the lowest price will be found on their own website, which is a low-cost channel for them.

Reservations, revenue, and channel management constitute the fastest-changing part of hotel management today. Channel management requires a comfort with and interest in technology and systems, and a knack for problem solving, anticipating, and risk taking (to shut down past patterns and undertake new initiatives).

► CLOSING, CONFIRMING, AND MANAGING REVENUE

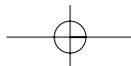
How one commits space—a room, meeting space, ballroom, or even a restaurant table—and at what price—determines the revenues

and financial health of the hotel and determines the customer's expectation of value. Revenues must be managed to optimize financial returns and customer satisfaction—that is, the customer's willingness to return.

No one department controls the tools of revenue management. They are shared among salespeople, catering and banqueting managers, front desk agents, reservation agents, and so on. To manage properly requires frequent and open conversation between managers, good forecasting, skillful selling by customer contact people, and an appreciation of each week's goals and targets for the hotel. Poor forecasting, inflexible inventory policies, and conflicting approaches by different departments with whom the customer deals can undo all the best advertising, selling, and promotion.

Through the same forecasting disciplines, hotel teams manage their revenues to maximize the productivity of the hotel and assure its financial health. Revenue management tools and increasingly affordable yield systems can have a major and salutary effect on the financial health of the hotel.

Another part of revenue management is incentives for reservations upselling, conversion of callers, and average rate increases, and for front desk agents upselling. In the same way, F&B staff should be viewed as salespeople and given training on suggestive selling.



PRODUCTIVITY TIPS

- Eschew seasonal price schedules and adopt pricing tiers based on forecast occupancy for the dates in question.
 - Saturday has become the highest demand day of the week; make sure you are not leaving discounts on the table out of habit.

- Teach reservation agents that stay-through restrictions are not mistreating guests. A three-night stay room is a different inventory unit than a one-night stay room, and is to be rationed.

Inventory policies for tier price quotes by forecast levels of occupancy, for stay-through restrictions, for same-rate substitutions and upgrading to clear demand inventory categories—all these are tools through which reservation and revenue managers optimize the RevPAR performance of the hotel.

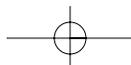
It is in the area of revenue management that chains, especially multibrand management companies, have achieved significant advantage over independent hotels and franchisees that do not participate in cluster or regional revenue management. Decisions on pricing are still the domain of the property GM, but with a centralized expert staff collecting data and forecasting, the advice and guidance available has brought yield and RevPAR premiums to the chain member properties.

Revenue management requires attention to detail and analytic and forecasting skills; tolerance for ambiguity and comfort with change; and managing, training, leading, and motivating reservations agents. This is one of the most critical and dynamic areas of hotel management, one with which every aspiring general manager or director of sales and marketing should take pains to become familiar.

► PREPARING TO DELIVER AND DELIGHT

A marketer of a product can count on the factory quality-control system to deliver a consistent product for sale. When the sale is closed, the customer takes the product away and uses it. In a service business, however, the product is human behavior, and the customer uses the product in the hotel. Because we are humans, both customers and employees, our interactions are never the same one time to the next. The job of the marketer is to help employees understand what the customer will want, need, and expect, and to sell employees on doing their job with enthusiasm.

In a full-service hotel, the conference services department embodies this preparing idea as its primary function. Conference service managers are the essential group business brokers between sales and operations. Conference services people can create loyal and repeat meeting planners; the job requires empathy, attention to detail, willingness to work unusual hours, action orientation, internal relationship building, and persuasiveness.



Preparing the hotel to fully satisfy and regularly make customers happy is as much a marketing task as attracting customers in the first place. What makes marketing hospitality services harder than marketing a tangible product is that for every market segment there must be two marketing programs, one directed externally to customers, the other internally to employees.

► RETAINING CUSTOMERS

The key to both financial health and market leadership is retaining a higher proportion of customers than do any of your competitors. Retain more customers than others do, and over time your costs drop—because of efficiency, lower advertising and selling costs, better forecasting—and your occupancy and rates rise. Numerous studies validate the high correlation between profit leadership and customer retention.

Frequent-stay rewards are often mistaken for retention programs. They are not. Rewards can motivate returns only as long as the customer values the points or airline miles or whatever. But they do not create loyalty. They are valuable only insofar as they give employees the opportunity to come to recognize and satisfy the guest, and insofar as they give the marketing department information on who the customer is and where he or she is coming from.

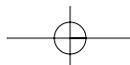
Retaining customers takes more than just doing the job well. Guests and customers must come to know they are valued. Management must build relationships—the tie that binds regardless of a new hotel opening in the market or a hot promotional offer from across the street. Relationships are built on

recognition and familiarity, on trust, and on appreciation. Thus, guest and customer retention must be a planned and creative activity that involves both sides of the relationship—the customers and the employees. It takes more than just smiling and trying hard. Among the talents and skills needed are analytic skills, curiosity, direct marketing planning, and management of data retrieval and direct marketing service providers.

► MEASURING SATISFACTION AND EVALUATING PERFORMANCE

If the purpose of the business is, in part, to keep customers, does a financial statement of rate, occupancy, revenue, expense, and profit give enough information? No. Also needed is a scorecard of customer satisfaction, of how likely customers are to return or tell others about your good hotel. That scorecard is the guest satisfaction survey. Accounting statements tell of the hotel's financial health; a guest satisfaction scorecard tells of its reputation's health. The scorecard also helps management spot changes in expectations. Customers are not the same from one visit to the next. Experience with a new hotel, perhaps even in another city, may raise a customer's standards. To measure satisfaction, one needs quantitative skills for tracking, analyzing, and reporting data, and the ability to manage the logistics of repetitive distribution, collection, and processing.

(Note: Many hotels rely on comment cards for tracking guest satisfaction. That may work in some situations, but if your property



has a high rate of repeat customers and/or frequent business travelers, comment card data are unreliable. It is the infrequent traveler who bothers to fill out comment cards—unless there is a gripe to be expressed. Develop and use a continuing survey to get a reliable measure of guest satisfaction levels.)

The information helps management figure out what the hotel needs to be and to offer next in order to remain competitive and keep customers. Note, now, the return to the first step of the marketing process.

continuous circle around which management must go again and again as competition improves and as the customer segments in the market change. Only by reviewing and renewing the marketing process will a hotel get ahead and continue to be the leading hotel in its market. This model of the marketing process applies to both the whole hotel and to any revenue or profit center within it. Use it like a checklist when thinking through improving the revenue and competitiveness of any operation.

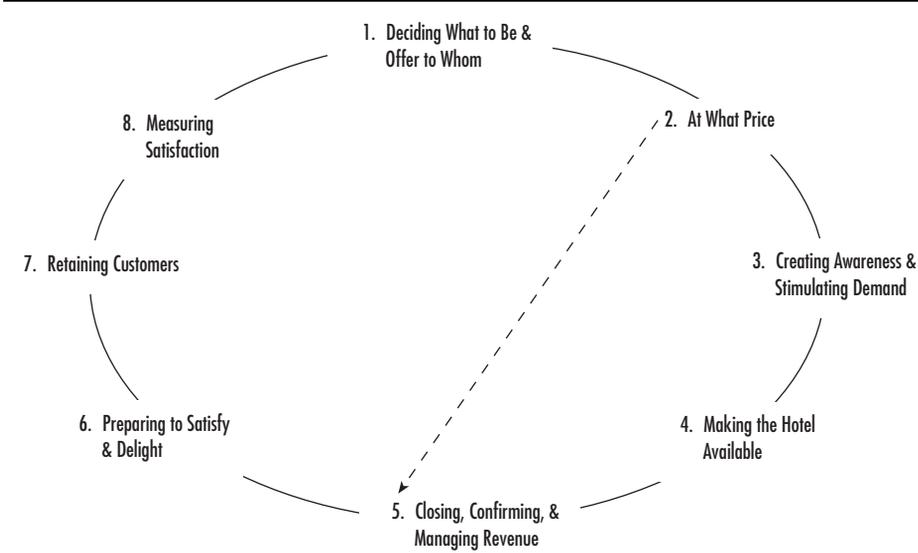
► THE CIRCULAR MARKETING PROCESS

In other words, the marketing process isn't the straight-line, step-by-step process shown in Figure 7.1 but rather, as shown in Figure 7.2, a

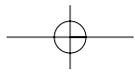
► THE MEASURES OF MARKETING

The health of the marketing process should be measured over a longer time than a month or quarter or fiscal year, and it should

Figure 7.2 The Hotel Marketing Process



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be measured by more than just profit and loss data. A healthy marketing process results in:

- Rising room revenues per available room and rising F&B revenues per available seat and catering space.
- Rising market share to a share index over 100—that is, a larger share of a competitive set’s occupied rooms than the hotel’s share of the set’s available rooms, which is its “fair share.”
- Falling costs of acquiring customers, not on a percentage-of-revenue basis but as dollars per unit of sale—for example, dollars per occupied room, dollars per cover, and so on. What is the acquisition cost? The total of the advertising and business promotion budget (more often now called the marketing and sales expense), plus commissions, reservation costs, franchise fees, and marketing fees. These costs in times of inflation may not actually decline but at least should grow more slowly than do gross operating revenues.
- Rising customer satisfaction ratings.
- Increasing retention rates measured by the percentage of business from repeat customers.
- Growing top-of-mind awareness among target customer segments and, if the hotel can afford to measure it, preference by segment rising to number one among your competitive sets.

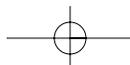
Management and owners should ask for an annual report card on the health of the marketing process—of the hotel, of a chain, of a franchise group.

▶ MANAGEMENT OF THE PROPERTY’S MARKETING PROCESS

As should by now be clear, the marketing process is larger than any one individual’s job. Further, no hotel can afford the myriad talents and skills that must be orchestrated to create and sustain a healthy marketing process; a single hotel is simply not a large enough business to afford having all those talents on staff.

Franchise companies and managed chains have the mass to employ a large proportion of those talents at headquarters, but even they must call on outside services in design, database management, advertising, direct marketing, and so on. But the chains’ ability to invest in new tools and hire diverse talents has led branded chains, both management companies and franchisers, to collect increasing numbers of hotels under their umbrellas. The trend toward centralizing marketing functions to serve several hotels in a region, often even hotels of different brands, is accelerating, especially with the advent of Internet-driven information sharing. The advantages are the ability to integrate multiple sources of information, to hire experts that a single hotel might not be able to afford, to share the cost of sophisticated systems for forecasting, revenue management and customer relationships, and to reduce the expense of marketing to individual properties.

Independents must counter such attractions with cooperative activities and aggressive local marketing. The Internet has leveled the playing field somewhat, allowing independents to be found and reviewed by consumers and travel agents in a way not possible when GDS systems were the only means of access.



▶ PROPERTY RESPONSIBILITY FOR ITS OWN MARKETING

To optimize performance, a property can neither abdicate its marketing to a chain or franchise group nor passively rely on location and presence to bring customers to the door. Each property, whether flagged or independent, must be responsible for creating and managing a marketing process tailored to its particular marketing situation—that is, its available customers; its inherent strengths, weaknesses, and employees; and its competitors. Each marketing situation is unique, even among cookie-cutter chain properties. Each has its own location, competitor, and customer dynamics.

So, given the wide range of talents and skills that must be orchestrated to create an effective marketing process, who is to lead it? Directors of sales and marketing cannot, for the process is much larger than the marketing department. Only the general manager can lead his or her marketing process; only he or she can integrate chain supports, operating departments, human resources (HR), the controller, and—yes, marketing and sales.

▶ THE GM AS LEADER OF THE MARKETING PROCESS

General managers must come to see themselves as the leader of their marketing process and be comfortable in the role. This does not mean becoming expert in all tools and disciplines; it does mean seeing the whole and appreciating when to bring in what talents, when

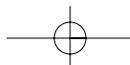
to apply what tools, and how to judge the effectiveness of the process. It means using the marketing process as an organizing concept for creating the management team and a unified viewpoint of mission and challenge.

When a hotel is led by a general manager who sees herself or himself as leader of the marketing process, when that process is thoughtfully conceived and well executed, when all employees see themselves as joint operators/marketers, that hotel becomes customer-centered, competitive, and a leader in its markets.

Few GMs are trained to do this. Many come to appreciate that location and flag are not enough; many intuitively pick up a smattering of sales, distribution, advertising, and customer retention. But it is the rare GM who weaves these parts into a coherent whole and thinks through the challenge of creating and leading the marketing process. As marketing continues to develop more complex tools and as marketing productivity becomes a more pressing matter, owners, universities, and chains must address this issue of how to develop GM candidates who are comfortable with and capable of leading a comprehensive marketing process.

▶ THE MARKETING PROCESS MODEL AS A PROBLEM-SOLVING TOOL

One last word: The circular model of the marketing process is presented here mainly in terms of rooms marketing. But the model can be applied to every revenue department—to food and beverage outlets, catering, the health club, the business center, and even the laundry. The model can be used for planning, for



business reviews, for presentations to lenders and owners, for troubleshooting, and as a checklist when preparing proposals for new services or facilities.

Use the model, make it part of your bag of management tools, and get your team to see their role in terms of this holistic and never-ending marketing process. If you achieve that, you will have gone far to create a customer- and competitor-focused organiza-

tion, one in which employees see themselves as operators/marketers rather than just “in operations” or “in marketing” or “in HR.” The few hotels that achieve and nurture a well-tuned marketing process and whose employees see themselves as integral parts of it become leaders—in market share, in customer and employee loyalty, and in financial returns to owners.

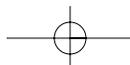
7.3 CONSUMER DECISION RULES AND IMPLICATIONS FOR HOTEL CHOICE

Bianca Grohmann and Eric Spangenberg

Consumers’ choices are influenced by the goals they attempt to achieve. Once a person has recognized a need, such as the need for accommodation when traveling for business or pleasure, he or she engages in an information search to identify alternatives from which to choose. Understanding how consumers evaluate competing alternatives in their purchase decision processes enables marketers in the hospitality industry to design better advertising and promotional campaigns leading to a more favorable evaluation of their offerings in travelers’ eyes. This is an important step in increasing the likelihood that consumers will choose their offering as opposed to that of competitors. Given that most travelers’ destinations offer several hotels, how do people choose among them? The answer to this question lies, in part, in research on consumers’ attitudes and their relation to purchase intentions and subsequent purchase behavior. This chapter describes several methods consumers

may use to make choices based on the evaluation of identified alternatives.

Attitude is the tendency to respond in a consistently favorable or unfavorable manner toward a target (e.g., brand or product). Important to marketers is that, if measured accurately, attitudes are predictive of behavioral intentions and relatively stable over time. Simply put, consumers generally form intentions to choose a hotel brand toward which they hold positive attitudes. Behavioral intentions, however, do not always translate into corresponding behavior. For example, although some consumers have preferences and therefore form intentions to stay at Fairfield Inn when traveling across the country, they might end up choosing other forms of accommodation from time to time. Why would they act inconsistently with their intentions? Traveling with friends who have different attitudes and preferences, temporary price reductions of competitors, or the fact that a



Fairfield Inn is not readily available in a specific area might be reasons for inconsistencies between behavioral intentions to stay at a Fairfield Inn and actual choice behavior.

Despite situational factors sometimes influencing travelers' choices, attitudes are ultimately useful in predicting actual behavior; changing or strengthening the basis of consumer attitudes may therefore increase the likelihood of consumers engaging in desired behaviors. In order to change attitudes and subsequent related behavior, marketers must understand a few basic decision rules associated with consumer attitudes. Below we introduce decision rules likely to be implemented by different segments of consumers under varying market conditions.

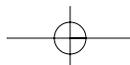
► DECISION RULES

D*ecision rules* are strategies consumers use to choose among alternatives. Several factors can influence what decision rule consumers ultimately apply in a specific situation. Typically, the more important and less frequent a purchase decision is, the more time and effort consumers are willing to expend making that decision. Choosing a resort at which to spend a twenty-fifth wedding anniversary, for example, is a decision most consumers face only once and therefore are likely to take a relatively long time to make, and they are likely to be careful and thorough in evaluating alternatives. On the other hand, a salesperson traveling frequently in a familiar territory likely chooses a hotel using a routine process where far less time and consideration are given to alternatives. Further, brand-loyal customers might choose to stay with the same hotel chain whenever possible, thereby avoiding a situation where they are forced to

choose among alternatives. In general, the stronger a consumer is motivated to search and the greater the risk associated with a choice, the greater the complexity of the decision rule he or she implements.

Another important characteristic of modeling decisions is the fact that (counterintuitively and often counterattitudinally) people often do not attempt to optimize choice. If a person's goal is optimal choice, considerably more time and effort is typically required to identify and evaluate alternatives. Therefore, consumers often choose a satisfactory (as opposed to optimal) alternative (as opposed to the best alternative possible) in order to save time and effort. The use of decision rules in these instances enables people to take shortcuts in making decisions in the face of the apparently unlimited or overwhelming amounts of information available regarding all possible alternatives. Consumers usually work with a consideration set (i.e., a subset of alternatives from the entire universe of choices) so they do not have to work as hard cognitively when required to make a decision in a given product category. They then make a final decision from this reduced set of alternatives. Such decision rules are referred to as *heuristics* or rules of thumb. Employing heuristics, people save time and limit complex information processing while still making reasonable or satisfactory choices based on the few brand attributes or characteristics most important to them at the time of choice. In the context of hotel choice, brand attributes are things like location, room rates, and availability of a swimming pool, restaurant, and so forth.

Although the number of consumer decision rules is almost infinite and likely varies by consumer, basic categories and a few specific examples serve as useful tools in modeling and predicting traveler decisions. Two



general categories of decision rules are (1) compensatory and (2) noncompensatory. Below we discuss how travelers make decisions using these two types of rules.

► Compensatory Decision Rules

Compensatory decision rules model consumers as deriving an overall brand evaluation such that alternatives performing poorly on one attribute can *compensate* for their respective shortcomings by positive evaluations of other attributes. For example, a high-priced hotel might not be perceived positively on the dimension of room rates by some travelers; however, these same travelers might be willing to spend more money knowing they will receive better service or that the hotel is conveniently located—that is, in this example, service and location compensate for the perceived disadvantage of high room rates. The multi-attribute attitude model described in the next section is perhaps the most popular compensatory decision rule.

Multi-attribute Attitude Model. The multi-attribute attitude model we describe herein is also referred to as a *weighted additive model* or the *Fishbein (1975) linear compensatory model*. In this model, people not only assess the value of each salient (or important) attribute of brand but also consider the extent to which a given alternative possesses the attributes. (*Note:* In this context, it is important to note that salience is essentially equivalent to importance. Further, the attributes salient to one market segment may be very different from those of another segment. For example, business travelers may not care at all about a spa, an airport shuttle, and room service breakfast quality, while to another

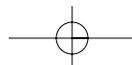
market segment, these property attributes may be very important.) The evaluations of salient attributes and the beliefs that brands possess the salient attributes are included as weights in an equation determining overall brand attitude. The model is represented as:

$$A_{\text{brand A}} = \sum_{i=1}^n e_i b_i$$

where $A_{\text{brand A}}$ is the overall attitude toward hotel brand A, e_i is the evaluative weight associated with attribute i , b_i is the extent to which the consumer believes brand A possesses attribute i (i.e., strength of belief that i is present in brand A), and n is the number of salient attributes in consideration.

Operators and marketers typically measure importance weights and strengths of beliefs using questionnaires. First, survey respondents are asked to provide evaluative weights associated with each of the attributes salient to their decision; these numbers represent each attribute's relative positive or negative associations in consumers' minds. Although scale endpoints may vary by researcher preference, our demonstration of this model assumes use of a 7-point scale on which -3 is the lowest importance rating possible, $+3$ is the highest, and a neutral importance rating is zero. An attribute that is evaluated entirely negatively by survey respondents (e.g., the availability of guest laundry) would be assigned a value of -3 , whereas an attribute that is highly positive in a consumer segment's evaluation (e.g., low room rates) might be assigned a value of $+3$.

Once consumer attribute evaluations are determined, survey respondents state the extent in which they believe a brand possesses respective attributes. Again, for simplicity of demonstration, we assume that the belief strength regarding any of the attributes to be



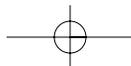
evaluated ranges between -3 (i.e., the brand definitely does not possess the attribute) and $+3$ (the brand definitely possesses the attribute). For example, if a traveler believes that Hotel X is a relatively high-priced establishment, the consumer might assign a belief value of -2 to this hotel on the attribute “low room rates,” thereby indicating that Hotel X does not possess the attribute “low price” to a great extent. In other words, Hotel X performs poorly on the traveler’s low room rate criterion. The hotel offering the absolute lowest price—say, Hotel Q—may be assigned a value of $+3$ on the attribute “low room rates,” thereby indicating the traveler strongly believes that Hotel Q does indeed offer low room rates.

The next step in the model is multiplication of attribute evaluation (e_i) and belief strength (b_i) for each of the salient attributes. If the traveler evaluated low room rates very positively ($e_{\text{room rate}} = +3$), and Hotel X received a belief score of $b_{\text{room rate}} = -2$, we calculate Hotel X’s contribution to overall attitude score relative to the attribute “low room rate” by multiplying evaluation and belief scores $e_{\text{room rate}} \times b_{\text{room rate}} = (+3) \times (-2) = -6$. Evaluation of Hotel Q on the low room rate attribute will be more favorable—specifically, $e_{\text{room rate}} \times b_{\text{room rate}} = (+3) \times (+3) = 9$. This procedure is followed for each salient attribute for all brands in a consideration set. Other attributes, for example, could include location near the airport, availability of room service, or complementary breakfast, and the $e_{\text{attribute}} \times b_{\text{attribute}}$ products calculated for each brand and attribute.

Finally, the products of $e_i \times b_i$ for each salient attribute are summed for each brand. The resulting scores represent the relative overall attitudes held for each brand. This weighted additive model is applied to all the brands included in the survey as the consider-

ation set, and the brand associated with the highest overall attitude score is selected as the preferred alternative.

A few considerations should be kept in mind that are important to implementation of this model. First is the notion that the model is relative in nature—that is, an overall attitude score of $+21$ for a single hotel means nothing unless it is compared to the overall attitude scores of its competitors as evaluated by survey respondents in a relevant market segment. Further, it is important to include all relevant competitors in the model. As a relative model, it may be that the market segment considers only one of five low-budget properties when traveling to a particular locale. If so, include only those five; it is not helpful to have comparisons made (explicitly or implicitly) in respondents’ minds if they are not realistic (e.g., it is likely that inclusion of the Four Seasons in the consideration sets of Quality Inn customers is inappropriate). By the same token, leaving out alternatives that respondents in the market segment may truly consider can introduce error; the result may be a finding that the property has the highest attitude score among those included on the survey, yet the model is not predictive because the survey omitted a strong competitor. Also of paramount importance is the selection of appropriate salient attribute sets. If critical, differentiating attributes are left out of the model, summated scores are not predictive of behavioral likelihood; consumers using a compensatory model in actuality are implicitly calculating scores using attributes that may have been missed by survey administrators. Thus, it is critical to select the appropriate salient attributes for inclusion in the model. Note that *appropriate* does not mean *all* attributes. Surveyors often ask about things that do not really matter to respondents. Once primed, however, respondents



provide a score on attributes they may never have thought of on their own, thereby contributing falsely (positively or negatively) to overall attitude scores.

We now provide an example of the linear compensatory model, necessarily simplified with regard to number of brands under consideration and salient attributes included. Consider Charlie and Elsa Brown, a wealthy New York couple looking for a hotel to stay at while spending a weekend skiing in Vermont; the Browns represent a market segment that regularly visits this area for this purpose. Based on a discussion with friends who know the area well, the Browns identified four hotels (associated with four different brands) in the area they plan to visit. Table 7.1 shows four salient attributes the Browns consider, the importance of each attribute (e_i ranging from -3 to $+3$) and the beliefs (b_i ranging from $+3$ to -3) regarding the extent to which each of the properties possesses attribute i . (Note that there could be more or fewer salient attributes depending on the product or service in consideration and the attributes salient to the perspective market segment.)

Using the above scores derived from survey responses, we derive an overall attitude score for each of the hotels in the Browns' consideration by computing the sums of the products of importance (e_i) multiplied by belief strength (b_i) for each attribute for each brand. For example, for Brand E:

$$\begin{aligned} \text{Attitude}_{\text{Brand E}} &= \sum_{i=1}^n e_i b_i \\ &= (e_{\text{proximity to skiing area}}) \\ &\times (b_{\text{proximity to skiing area E}}) + (e_{\text{low rates}}) \\ &\times (b_{\text{low rates E}}) + (e_{\text{fine restaurant}}) \\ &\times (b_{\text{fine restaurant E}}) \\ &+ (e_{\text{indoor pool}}) \times (b_{\text{indoor pool E}}) \end{aligned}$$

Note that the evaluation weights (e_i) assigned to attributes remain constant across brands, while belief strength may differ from brand to brand (indeed, *should* differ, unless brands are identical). The overall attitude toward hotels E, F, G, and H can therefore be calculated as follows:

$$\begin{aligned} A_{\text{Hotel E}} &= (+3)(-1) + (-2)(-1) \\ &+ (+1)(+3) + (+2)(0) \\ &= -3 + 2 + 3 + 0 = 2 \end{aligned}$$

$$\begin{aligned} A_{\text{Hotel F}} &= (+3)(+2) + (-2)(-2) \\ &+ (+1)(+3) + (+2)(+2) \\ &= 6 + 4 + 3 + 4 = 17 \end{aligned}$$

$$\begin{aligned} A_{\text{Hotel G}} &= (+3)(+3) + (-2)(+1) \\ &+ (+1)(-2) + (+2)(+3) \\ &= 9 - 2 - 2 + 6 = 11 \end{aligned}$$

$$\begin{aligned} A_{\text{Hotel H}} &= (+3)(+1) + (-2)(+2) \\ &+ (+1)(+1) + (+2)(+3) \\ &= 3 - 4 + 1 + 6 = 6 \end{aligned}$$

Thus, assuming an optimized score being sought in this instance, Hotel F, scoring highest in overall brand attitude (17), is most likely to be chosen. Hotel E, on the other hand, scored lowest on overall brand attitude (2), and is unlikely to be selected.

► Noncompensatory Decision Rules

Although many factors (e.g., high involvement, high physical, social, or economic risk) associated with a decision may lead consumers to use a compensatory decision rule, the effort is relatively complicated and often too time- and effort-intensive for people to

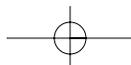


Table 7.1 Four Salient Attributes K Considers

Attribute	e_i	Hotel E b_{iE}	Hotel F b_{iF}	Hotel G b_{iG}	Hotel H b_{iH}
Proximity to skiing area	+3	-1	+2	+3	+1
Low rates	-2	-1	-2	+1	+2
Fine restaurant	+1	+3	+3	-2	+1
Indoor pool	+2	0	+2	+3	+3

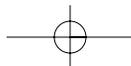
employ for many day-to-day decisions. As suggested above, consumers may use a compensatory decision rule if they spend a lot of time on the road, for a special vacation, or for an extended stay abroad. However, they are unlikely to use such an elaborate rule when purchasing a beverage at a gas station or when they need to find inexpensive lodging in the middle of a long drive to visit friends. Thus, many decisions are made using much simpler rules. Noncompensatory decision rules tend to simplify decision making; they may lead to less than optimized results but are often employed when consumers *satisfice*, or seek an outcome that is good enough rather than optimal.

When noncompensatory decision rules are used, a brand or product cannot compensate for weak performance on one attribute by performing well on other attributes when competing alternatives are compared. For example, if consumers choose a hotel based on the single criterion attribute of low room rates, a hotel offering higher-priced accommodations with better service would not be chosen (unless rooms are not available at the hotel offering lower rates). In this case, consumers do not trade off room rates and service quality but make their decision guided solely by a property's rates.

The most commonly used noncompensatory decision rules are the *lexicographic decision rule*, the *elimination-by-aspects decision rule*, and the *conjunctive decision rule*. To demonstrate consumers' use of noncompensatory decision rules, we can use the same survey data as the compensatory decision model regarding salient attribute evaluations and brand beliefs regarding those attributes. The data, however, are used differently, as described below. For the noncompensatory rules defined below, we again consider the evaluations and beliefs regarding Hotels E, F, G, and H introduced in Table 7.1.

Lexicographic Decision Rule. When using a lexicographic decision rule, consumers select a brand according to the alternative that scores highest on a single attribute deemed most important. This is probably the way we make a lot of decisions. What is cheapest? What is most convenient? What is the best-looking alternative?

Consider the values in Table 7.1 as results of a different survey for consumers from a different market segment: Four brands of hotels are evaluated on the four attributes of proximity to skiing area, low rates, fine restaurant, and indoor pool. The importance of each of these attributes is given by e_i . Importance ratings are proximity to skiing area (+3), low



rates (-2), fine restaurant (+1) and indoor pool (+2). Proximity to skiing area is the most important attribute in this case of hotel choice, followed by indoor pool, fine restaurant, and low rates, respectively. According to the lexicographic decision rule, proximity to skiing area is the attribute determining consumer choice in this case. Consumers have reason to believe that Hotel G is closer to the slopes ($b_{\text{proximity to skiing G}} = +3$) than are the other hotels in the consideration set, and therefore Hotel G is chosen.

Elimination by Aspects. When an elimination-by-aspects decision rule is used, attributes are again ranked according to their importance. Unlike choosing the hotel brand that performs best on a single most important attribute as with the lexicographic rule, however, elimination by aspects involves the use of cutoff values. A cutoff value is a minimal performance score a brand must have to stay in the consumer's consideration set. A consumer first looks at performance scores of brands regarding the most important attribute and eliminates all brands that do not exceed the predetermined cutoff value. We often do this with multiple attributes: "I won't pay more than \$110 a night in city X, so I don't even look at properties more expensive than that, but my choice also has to have a pool." We essentially eliminate by the aspect of price first and then by whether or not the hotel has a pool.

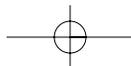
In the example shown in Table 7.1, proximity to skiing area is the most important attribute, with an importance rating of +3. Let us assume the consumer's cutoff value is +2. That means that all of the hotel brands that have a score of at least +2 on the proximity to skiing area attribute are retained in the consideration set, while brands that do not meet this cutoff criterion are dropped from the

consumer's consideration set. For this example, only Hotel F ($b_{\text{proximity to skiing area F}} = +2$) and Hotel G ($b_{\text{proximity to skiing area G}} = +3$) meet the cutoff criterion (+2). Hotel E ($b_{\text{proximity to skiing area E}} = -1$) and Hotel H ($b_{\text{proximity to skiing area H}} = +1$) are not close enough to the skiing area to make the cut.

When implementing the elimination-by-aspects decision rule, the consumer replicates these steps: He or she now considers the performance of the remaining brands with respect to the attribute ranked second-highest in importance. In our example, the consumer next looks at the availability of an indoor pool at Hotels F and G. Assuming the cutoff value to be employed is +2, both brands remain in the consumer's consideration set, as the scores for indoor pool Hotel F ($b_{\text{indoor pool F}} = +2$) and Hotel G ($b_{\text{indoor pool G}} = +3$) both meet this criterion. At this point, the consumer has not yet found the best offering according to the elimination-by-aspects rule.

Consequently, the consumer applies the same procedure to the attribute ranked third—that is, the availability of a fine restaurant. Assuming the consumer still uses a cutoff criterion of +2, Hotel G ($b_{\text{fine restaurant G}} = -1$) is eliminated from the consideration set. Hotel F ($b_{\text{fine restaurant F}} = +3$), on the other hand, exceeds the cutoff criterion, is now the only brand left in the consumer's consideration set, and is therefore selected.

Note that using the same data set, the elimination-by-aspects decision rule leads to a different choice than the lexicographic decision rule. From a strategic standpoint, the fact that some consumers use an elimination-by-aspects decision rule should encourage hotels to improve their performance on several attributes important in consumer choice. It is not enough to be situated close to a skiing area. Other aspects of the offering might also



be important in consumers' hotel selections, and performance in these areas should be monitored and, if necessary, improved. You can see, however, that it is crucial to improve services that are valued by consumers—in other words, aspects of a hotel's offering that have high importance ratings. Shortcomings in aspects that are valued highly by consumers, such as cleanliness and employee friendliness, cannot be compensated for by strong performance in areas to which consumers attach no importance (e.g., internal cost-control systems).

Conjunctive Decision Rule. When a conjunctive decision rule is employed, consumers process information by brand, as opposed to attribute by attribute, as with the lexicographic and the elimination-by-aspects decision rules. With this rule, consumers establish a cutoff criterion that must be met by alternatives in the consideration set on all salient attributes for brands to remain in consideration.

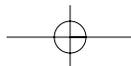
Let us assume that a consumer desires that the chosen hotel should have a score of at least +1 on all of the attributes he or she considers important. In our example, then, proximity to a skiing area, low rates, fine restaurant, and indoor pool must all rate a +1 on each of these dimensions to remain in the consideration set. First, the consumer evaluates Hotel E on each of these attributes. While Hotel E meets the cutoff criterion of +1 on fine restaurant, it falls short of the consumer's cut-off rule when it comes to proximity to skiing area, low rates, and indoor pool, and therefore is eliminated from consideration. The consumer then turns to evaluation of Hotel F, which meets the cutoff value of +1 on three out of four relevant attributes. It is eliminated from choice consideration, however, due to its failure to deliver on low rates. The consumer's assessment of Hotel G also

leads to elimination from choice consideration because it does not meet the cutoff criterion of +1 on the attribute "fine restaurant." Hotel H, on the other hand, exceeds the cutoff criterion of +1 on all of the criteria. Thus, using a conjunctive decision rule, Hotel H is selected.

Accounting for Ties. Note that ties can frequently occur using compensatory or non-compensatory decision rules; this usually results in consumers moving to a new rule in order to break the tie. For example, if compensatory values were equal for two competitors (not shown in the examples above), a consumer might implement a lexicographic decision rule with proximity to a skiing area as the most important attribute used to pick a hotel. Or, if the conjunctive cutoff value were -1 for all attributes, both Hotels E and H in our example would stay in consideration; the consumer may then use a lexicographic decision rule based on availability of an indoor pool, resulting in Hotel H being chosen as it is rated higher on this attribute than Hotel E.

▶ MARKETING IMPLICATIONS

Once consumer evaluations of salient attributes (e.g., availability of room service, conference facilities, wheelchair accessibility, children's programs) are determined and their beliefs regarding a hotel brand's offerings are known, managers can use this information to improve their hotel's competitive positioning in the market. The goal of any marketing strategy is to increase positive attitude toward the offering or to encourage the use of certain decision rules, thereby increasing the likelihood of being chosen by consumers.



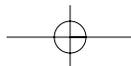
As we have seen, when consumers use a compensatory decision rule, the overall attitude toward a hotel is determined by the sum of the products of evaluations multiplied by beliefs regarding salient attributes associated with the offering. Consequently, travelers' overall attitudes toward a hotel can be rendered more positive by strategies targeted at increasing the evaluation of an attribute in consumers' decision making, or by changing consumers' beliefs about a hotel's offerings.

Travelers' attribute evaluations can be influenced by stressing the attribute in advertising (e.g., less money spent on accommodation can be used to have more fun with the whole family by spending the savings on other activities, the availability of a business center enables business customers to save time). This strategy of influencing attribute evaluations is effective in attitude change and also relatively easy to pursue. It is, however, not a strategy always recommended for changing consumers' attitudes when they are using a compensatory model. The potential problem associated with this approach is that attribute evaluations are constant across brands in a consideration set. In our example above, travelers evaluating importance of the availability of an indoor pool (+2) is the same for all hotel brands, E, F, G, and H. If Hotel H were successful in a marketing message in increasing the evaluation of an indoor pool with a segment of consumers, say to a rating of +3, it would increase consumers' overall attitude toward its brand. At the same time, however, consumers' overall evaluation of Hotel G would increase by the same amount, as both brands do not differ with respect to consumers' beliefs about their having a great indoor pool (i.e., both have a belief rating of +3). In the end, the attempt to increase consumers' overall attitude to-

ward Hotel H would also benefit some of its competitors.

Thus, sometimes a more effective strategy for improving consumers' overall attitude toward a hotel's offerings is to improve consumers' brand-specific belief ratings. For example, Hotel F could strive to improve consumer belief that it offers a pleasant indoor pool by providing a picture of the pool on its website, or by stressing the availability of the indoor pool in advertisements. While consumer brand-specific beliefs are then likely to increase, Hotel F's competitors will not benefit from its strategy, and Hotel F thereby improves its competitive position.

Assuming that Hotel E cannot do anything to increase consumers' belief that it is not located in proximity of a skiing area (i.e., its location is indeed far from a skiing resort), a strategy it may employ to increase consumers' overall attitude toward the property is to add a salient attribute to the set of attributes consumers consider when making hotel choices. For example, Hotel E could provide free accommodation for children staying with their parents. It is likely that parents would consider this option important when choosing a hotel. As long as other competitors do not offer this service, Hotel E enjoys some advantage in the choices made by its target market. It is essential that when adding a new attribute, marketers consider the following: First, the attribute added must be important enough to the hotel's target market to be included in consumers' subsequent decision making (i.e., is it indeed salient?). Second, the belief that a particular hotel possesses this attribute must be stronger than the belief that any of its competitors do. This marketing strategy, often referred to as a *strategy of differentiation*, is likely to be successful when these conditions are met.



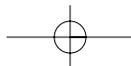
Differentiation, however, is unlikely to be sustainable—that is, over time, competitors identify what added attributes successfully attract customers and copy them, thereby creating consumer belief regarding their own properties. Thus, the hotel that introduced the new salient attribute often can expect to lose its differential advantage over time unless it maintains a unique characteristic like a special location (e.g., “there is only one view property on this section of coastline”) or a fabulous chef in the kitchen.

Increasing belief strength for a hotel’s attributes is not always a successful strategy, assuming a compensatory model is being used. For example, consumers may find it relatively unimportant whether the hotel offers low room rates or not. In the example data in Table 7.1, the importance rating for low room rates is -2 —that is, consumers in this particular target segment evaluate low room rates negatively, perhaps because they associate low rates with low quality or with small, underfurnished rooms. In this case, stressing that a particular hotel offers low rates, thereby increasing the strength of consumers’ beliefs, may adversely affect consumers’ overall evaluation of a property. If you compare Hotels F and H, you will see that the strong belief that Hotel H offers low rates ($b_{\text{low rates H}} = +2$) negatively affects its overall evaluation, as $(e_{\text{low rates}} \times b_{\text{low rates H}}) = (-2)(+2) = -4$. Hotel F, on the other hand, benefits from consumers not being aware of low rates, such that $(e_{\text{low rates}} \times b_{\text{low rates F}}) = (-2)(-2) = +4$.

It is important to note that importance weights associated with attributes vary across market segments. For example, while business travelers on corporate expense accounts or consumers on a once-in-a-lifetime vacation, such as a honeymoon, may attach less importance to low rates, more price-sensitive mar-

ket segments usually weigh low rates more heavily in their hotel choice. It is therefore important for marketers to carefully define the targeted market segment(s) prior to conducting their research and applying evaluation weights and beliefs to similarly disposed consumers.

In general, it is crucial to find out what attributes targeted consumers feel are most salient to their decisions and, in response, increase performance (or perceived performance) regarding these attributes and commensurately inform market segments of this stronger position. The resultant positive attitude toward the offering should then increase the likelihood of the hotel being chosen by travelers using a compensatory decision-making model. Alternatively, as a strategic move, particularly for special niche properties, marketers may want to encourage consumers to abandon the linear compensatory model. Niche market segments may exist or may be created through marketing communications; these target markets might be better served by hotels focusing on one or more of the noncompensatory decision rules presented. For example, a segment of highly price-sensitive customers predominantly using a lexicographic decision rule with low rates as the most important attribute may constitute the primary target market for a property. In this case, travelers can be targeted by offering low prices and/or frequent-stay loyalty programs. At the same time, services deemed unnecessary or unimportant by this customer segment can be eliminated or minimized. The fact that some customer segments expect a minimal level of performance on several attributes (e.g., cleanliness, convenience, and friendly service) when they use an elimination-by-aspect or conjunctive decision rule, however, implies that focusing



performance and/or marketing on a single attribute may be inadequate for some segments of travelers. A hotel would then benefit from creating a level of “at least acceptable” attributes in addition to providing stronger packages of the same attributes offered by competitors targeting the same market segment. Overall, knowing how consumers make decisions should help hotel managers to design better properties, packages, and services, and help them market those offerings to their respective target segment(s), thereby improving competitive position.

► COMPREHENSIVE EXERCISE

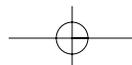
Understanding consumer decision-making rules enables you to make strategic and marketing decisions, thereby effectively targeting segments with varying goals, using multiple criteria, and following different decision rules when choosing hotel venues. This exercise gives you an opportunity to review the consumer decision-making rules discussed in this chapter and demonstrate the strategic implications of these rules for marketers in the hospitality industry.

Shannon Clarke is a chocolatier operating a small chocolate store in Knowlton, Quebec. This year, she is planning to attend the Sixth Annual Chocolate Show in New York City. Shannon has carefully considered various transportation options and decided to travel by car. She is now considering a number of accommodation alternatives. Shannon knows very well what characteristics are salient to her regarding hotel choice. For example, low rates are significant, as Shannon has a limited budget for traveling expenses. It is also imperative that the hotel offer free parking and be located not too far from the Metropolitan Pavilion on Eighteenth Street, where the Annual Chocolate Show will take place. To keep in touch with her business while staying in New York, Shannon would also like Internet access from her room. On the other hand, she does not require the hotel to offer a nice restaurant, as she will go out on the town each night to have dinner with fellow chocolatiers. Other attributes considered in the hotel choice of small business owners attending trade shows and conventions in New York are noted in Table 7.2.

Shannon identified four hotels in an online search. The information provided online makes it easy to determine what services are offered at what rates for each of the

Table 7.2 Shannon’s Salient Attributes

Attribute	e_i	Hotel Park b_{iP}	Hotel Union b_{iU}	Hotel Chelsea b_{iC}	Hotel Lion b_{iL}
Low rates	+3	+2	+2	+3	-1
Location	+3	+2	+3	+2	-1
Free parking	+2	+3	+2	+1	+2
Internet access	+1	-1	+2	+1	+3
Fitness facilities	0	-1	+1	-2	+3
Nice restaurant	-1	+1	0	-2	+2



properties. Shannon now must decide which of the four hotels she should choose. Table 7.2 shows relevant attributes, evaluation ratings, and belief ratings to be taken into consideration in Shannon's decision-making process.

Use the information provided above to answer the following questions:

1. Calculate the overall brand attitudes for all of the brands using the weighted additive/linear compensatory model.
2. According to beliefs and evaluations shown in the table above, which hotel is in the best competitive position? Which hotel is in the worst competitive position?
3. Describe three strategies the hotel with the lowest overall attitude rating could use to improve consumer attitudes.
4. Which hotel would be chosen using a lexicographic decision rule if Shannon Clarke considers low rates most important?
5. Which hotel would be chosen using the conjunctive decision rule with a cutoff value of 0?
6. Given the lexicographic decision rule with "nice restaurant" as the most important attribute, what should Hotel Chelsea do? What should Hotel Lion do?
7. List salient attributes not included in the table that could be considered for hotels catering to small business owners attending conferences and trade shows in the New York area.
8. Using the elimination-by-aspects rule, which hotel would be chosen given a cutoff value of +2?

Answers to Practice Questions

1. The overall brand attitudes are calculated using the formula $\sum_{i=1}^n e_i b_i$.

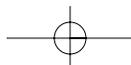
$$\begin{aligned} A_{Hotel\ Park} &= (+3)(+2) + (+3)(+2) \\ &+ (+2)(+3) + (+1)(-1) + (0)(-1) \\ &+ (-1)(+1) = 6 + 6 + 6 - 1 \\ &+ 0 - 1 = 16 \end{aligned}$$

$$\begin{aligned} A_{Hotel\ Union} &= (+3)(+2) + (+3)(+3) \\ &+ (+2)(+2) + (+1)(+2) + (0)(+1) \\ &+ (-1)(0) = 6 + 9 + 4 + 2 + 0 \\ &+ 0 = 21 \end{aligned}$$

$$\begin{aligned} A_{Hotel\ Chelsea} &= (+3)(+3) + (+3)(+2) \\ &+ (+2)(+1) + (+1)(+1) + (0)(-2) \\ &+ (-1)(-2) = 9 + 6 + 2 + 1 \\ &+ 0 + 2 = 20 \end{aligned}$$

$$\begin{aligned} A_{Hotel\ Lion} &= (+3)(-1) + (+3)(-1) \\ &+ (+2)(+2) + (+1)(+3) + (0)(+3) \\ &+ (-1)(+2) = -3 - 3 + 4 + 3 \\ &+ 0 - 2 = -1 \end{aligned}$$

2. If the weighted additive/linear compensatory model is used, Hotel Union is in the best competitive position because its overall attitude rating (+21) is higher than its competitors'. Hotel Lion is in the worst competitive position because its overall attitude rating (-1) is lower than its competitors'.
3. **Strategy 1:** Hotel Lion could attempt to change the perceived relevance of some of the attributes. It could stress the importance of a good restaurant and excellent fitness facilities for a hotel in which businesspeople stay while attending a trade show or conference. The drawback of this strategy is that some of its competitors could also benefit from it. **Strategy 2:** Hotel Lion could improve its performance on some of the attributes considered important by consumers in this target segment, thereby increasing the strength of consumers' belief that it possesses these attributes. More specifi-

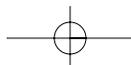


cally, Hotel Lion could lower rates if financially feasible, or provide better free parking. **Strategy 3:** Hotel Lion could encourage consumers to consider other relevant attributes when choosing accommodation for trade show visits or conference attendance. These attributes should be associated with a strong performance by Hotel Lion and a weaker performance by other competitors. For example, Hotel Lion might introduce a shuttle service to important conference and trade show locations to make it convenient for business travelers and conference participants to reach their destination; they could also offer a coffee shop for short breaks and breakfast suited for their target segments' busy schedules, and/or introduce secretarial or other business services for travelers.

4. If a lexicographic decision rule were used, with low rates as the most important attribute, Hotel Chelsea would be chosen. It scores highest on this attribute ($b_{\text{low rate } C} = +3$).
5. Hotel Union would be chosen because it is the only hotel in the consideration set meeting the cutoff value of 0 on all salient attributes.
6. Assuming that a lexicographic rule in this instance is looking for positive belief ratings on nice restaurant (i.e., evaluation score is now positive), Hotel Chelsea must improve its restaurant offering in terms of food, beverage, and service. These changes must be fairly substantial in order to affect consumers' impressions of the restaurant. It is thus likely that a considerable amount of time and money will have to be spent to rethink the restaurant concept and offerings. Hotel Lion should maintain its high level of

restaurant quality; it would also be possible to strengthen consumers' belief that Hotel Lion offers an excellent restaurant by increasing marketing communications. It is important to note here that understanding the consumer decision-making process is crucial in devising a successful marketing strategy: Only if a substantial (in terms of number of customers and/or profit potential) market segment is using the lexicographic decision rule based on positive evaluations of a nice restaurant in choosing a hotel does it pay to improve the restaurant (for Hotel Chelsea) or to maintain a nice restaurant offering (for Hotel Lion). If the targeted segments rely primarily on a compensatory decision rule using importance weights described in Table 7.2 above, then establishing or maintaining a nice restaurant may be counterproductive, as these consumers do not positively value that attribute ($e_i = -1$). In this case, creating a strong belief that a nice restaurant is offered decreases overall evaluations of the hotel—and is operationally expensive and time-consuming—that is, when targeting customers like Shannon, offering a great restaurant will not increase Hotel Lion's likelihood of being chosen. The hotel could, however, benefit from its strong performance on attributes like “nice restaurant” or “fitness facilities” not valued by the current market segment through changing its target marketing strategy. A property could, for example, target business travelers for whom exercise and fine dining are more important than low room rates or central location.

7. The following is a (nonexhaustive) list of additional attributes hotels might



consider that might be salient for entrepreneurs attending trade shows and conventions: access to fax and copy machines, secretarial services, complementary breakfast, cable TV, including channels covering business topics, complementary newspaper, and shuttle service to train station or airport.

8. Using elimination by aspects (cutoff value = +2), we initially eliminate Hotel Lion and see that hotels Park, Union, and

Chelsea stay in consideration based on beliefs about those brands regarding the equally important attributes of low rates and location. The next most important attribute is free parking, and we are left with hotels Park and Union in consideration after eliminating Hotel Chelsea. Finally, we eliminate Hotel Park and select Hotel Union based on the Internet access attribute (lowering the cutoff value to +1).

7.4 HOTEL PRICING

Marta Sinclair and Carl R. Sinclair

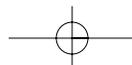
▶ TRADITIONAL APPROACH

The single most important criterion of success in any business, including hotels, is profit. The purpose of this article is to discuss the importance of hotel pricing and its influence on yield or revenue management, especially in terms of profit generation, and because of inherent dangers to the industry worldwide, integrity of the established pricing structure. Historically, price has been determined by the triangular relationship of cost and demand in the context of competition (see Figure 7.3). The actual pricing structure is developed with one of these three components as the deciding factor while the other two play supplementary roles.

The traditional pricing strategy was largely cost-driven. Many hotel operators tended to favor the rule-of-thumb method. This approach, also called the \$1 per \$1,000 rule, states that hotels should charge approximately \$1 per night for every \$1,000 of room cost, based on an average 70 percent occu-

pancy. Although popular in its day, the calculation of cost was commonly misunderstood (see Hanson, 1995). Another widely used quantitative method was the Hubbart Formula, developed in the late 1940s as a guideline issued by the American Hotel Association. It focused on computing an average room rate that would cover operational costs

Figure 7.3 Three Forces of Pricing



and yield a reasonable return on investment (ROI). These quantitative methods are fairly static and therefore suited for a stable economic environment. Qualitative pricing approaches, such as percentage increase of previous-year rates adjusted for inflation, payroll increases, and new cost of supplies, reflect more realistically the projected cost.

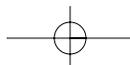
Other qualitative techniques are less ex-

act but, by being competition-oriented, they offer more flexibility. The Pied Piper or Follow-the-Leader method uses competition as the basis for rate setting, while the Gouge 'Em approach tries to lure business away from other properties by undercutting their prices. If there is no competition to speak of, Hit or Miss fluctuation of rates tied to profitable occupancy levels could be employed.

Table 7.3 Traditional Room Rate-Setting Methods

Quantitative Methods		Qualitative Methods	
\$1 Per \$1,000	<ul style="list-style-type: none"> • Determine the cost of the property (building, furnishings and equipment). • Divide the total by number of rooms. • Divide the calculated cost per room by \$1,000. • Estimate at 70% average occupancy. 	Gouge 'Em	<ul style="list-style-type: none"> • When demand is low, set rates below the market level. • When demand is high, set rates at a premium.
Hubbart Formula	<ul style="list-style-type: none"> • Calculate operating expenses. • Add taxes and insurance. • Add expenses for asset depreciation. • Deduct income from sources other than room revenue. • Divide the total by number of rooms in the hotel. • Adjust the calculated room rate for estimated occupancy. 	Hit or Miss	<ul style="list-style-type: none"> • Record occupancy at each pricing level. • Analyze the collected information periodically to determine which level was most profitable. • Set the rate at the most profitable level.
		Percentage Increase	<ul style="list-style-type: none"> • List the rates that were charged in the previous year. • Calculate rate of inflation, payroll increase, the new cost of supplies. • Convert the increased cost into percentage increase. • Increase previous year rates by the calculated percentage increase.
		Pied Piper	<ul style="list-style-type: none"> • Set rates according to what other hotels in the area are asking for comparable accommodation.

Source: DeVeau, L.T., P.M. DeVeau, N.J. Portocarrero and M. Escoffier. 1996. *Front Office Management and Operations*, pp. 83–91.



The drawback of competition-driven pricing is its sole focus on rate comparison, ignoring differences in operating expenses and customer-perceived value. An effective approach, therefore, calls for a mix of methods adjusted for different situations (see Table 7.3). The fundamental question remains: What should be the driving force in formulating a sound pricing strategy? In today's dynamic business environment, which discards the traditional view that market demand for room rates is largely inelastic, demand orientation seems to provide the best fit.

► CURRENT PRICING CRITERIA

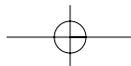
“Our pricing is market-driven, not cost-based,” says Scott Farrell, corporate director of distribution with Fairmont Hotels and Resorts, a Toronto-based chain of luxury properties. When the chain is setting its prices, it starts with comprehensive market research. Based on the data, the correct price for each marketplace is determined. If there is a major shift in a market, then the prices will adjust for that. However, if there is a major shift in a demand curve, then a shift of price may have no effect. It may actually leave more money on the table. For example, if the airlines go on strike, a significant shift in the demand curve would result. Under such conditions, decreasing the rate by \$50, for example, would only result in a \$50 loss. If there is an opportunity to go after a new targeted market with a specific offer, enabling the chain to capture a greater market share, then lowering the rate serves its purpose. Generally, however, lowering rates across the board is not the preferred pricing strategy.

► PRICING: WHO IS IN CHARGE?

While independently owned properties make their own pricing decisions, in case of a chain it is usually corporate headquarters (HQ) that sets pricing guidelines. Often, individual properties are still responsible for the actual pricing. Because they are held accountable, they must balance corporate guidelines with their autonomy to set their prices. Caroline Shin, member of the revenue management team at Starwood Hotels and Resorts Worldwide, which operates a number of upscale brands, such as Sheraton and W Hotels, stresses the cooperative nature of this relationship. Successful pricing strategies arise from an ongoing interaction of both sides. Corporate HQ provides sophisticated tools and in-depth market analysis that would be beyond reach of individual properties. Property managers, on the other hand, offer their experience and knowledge of regional specifics that may have gone unnoticed by the corporate team. “The people who have been in the property understand the dynamics of that market, and they have developed pricing intuition,” explains Shin. Some experts view intuition as a valuable part of the pricing mechanism, and even managers who are technically savvy check the numbers against their gut feeling.

► PRICING: SCIENCE, ART, AND INTUITION

Pricing distribution and revenue management techniques are a mix of science and art. Recent research shows that two-thirds of managers making strategic decisions under pressure and time constraints use a combina-



tion of analysis and intuition (Sinclair, 2003). The advent of modern technology, such as yield management software packages, has further strengthened this link. “Even the most sophisticated analytical model for forecasting, may it be for hotel pricing or for thermal dynamics of a nuclear plant, still needs variables based upon assumptions,” says Shin, who used to work as a nuclear engineer. The more business-savvy hotel management becomes and the more they understand the hotel dynamics and the market, the more can be gained from training them how to define their experience-based intuition and put it into numbers. In this respect, an interaction between the corporate revenue management team and individual hotels is paramount. “Every time I go out to a property, I learn something new. It only helps me when I build my analytical models to almost translate what they know into numbers,” confirms Shin. The better hotels can do that, the better models they can develop. Nonetheless, inaccurate historical data remains a major limitation.

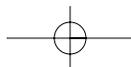
No model is ever going to be perfect, though. What seems to work best is to teach hotel managers how to use the model and to understand the direction of the pricing decisions they need to make. That is the scientific part. The art piece comes into play when they infuse the model with their knowledge and intuition. Staff training is an important part of this process. “We can’t just have Ph.D.s sitting in one room coming with all these models and we just roll it out. At the same time, we can’t just have people with intuitions run around and set prices,” says Shin.

Revenue management teams must make sure that hotels understand how to employ the models in their daily pricing decisions. When science is applied, the revenue team can go to their experts, ask probing questions,

and get solid results. Even though intuition is a part of this process, it is based only on a hypothesis that could have been triggered by a discussion with a customer, knowledge of what is happening in the marketplace, or historic trends. That is why pure intuition is not sufficient. “Managers must have reliable data to support their hunches,” cautions Scott Farrell.

► CUSTOMER NEEDS

Customer satisfaction is a crucial part of marketing, pricing, and yield management. Any pricing strategy established by the hotel management must attract customers willing to pay the specified rate. While price is a determinant of the customer profile the hotel is looking for, it is also an indicator of the quality of services and the market segment the hotel is competing in. Therefore, yield management uses information about targeted customers’ purchasing behavior and product sales to develop pricing strategy together with inventory control that delivers products that are better matched to customer needs, create greater demand, and, on that account, produce greater revenues. Lieberman (1993) states that yield management is the process of maximizing profits from the sale of perishable assets, such as hotel rooms, by controlling price and inventory and improving service through systemization. An exact definition of the target market is essential. There is a definite and firm perception in the psyche of the customer, who views the price as the value forthcoming. Therefore, the eventual satisfaction of the customer is the paramount task of the pricing mechanism. This is the make-or-break factor of the entire hotel, especially if the value expected does not match the price.



▶ ROLE OF TECHNOLOGY

While the approach to hotel pricing is still ruled by supply and demand, speed and sophistication of room-rate yield or revenue maximization is now much increased due to two technological factors: yield management software and Internet bookings.

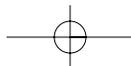
Yield management software packages enable hotels to use a higher number of room-rate levels, or buckets, and to control inventory for rate availability in real time. Each level may consist of several room rates open under given conditions to yield a maximum profit. Traditionally, hotels used between three and five rate levels; otherwise, the adjustment became too complex for the human brain to work with. The introduction of software removed this barrier, and some hotel chains now use up to ten rate levels. This allows implementation of much narrower ranges for each bucket, thus optimizing price elasticity. This further means the software model recognizes the point at which the same number of bookings can be achieved at a higher rate.

Online monitoring of room inventory in real time facilitates the timing of the adjustment. So far, the biggest limitation is the reliability of historical data. Even in its imperfect form, the system has made a difference. However, hotel managers are fully aware that it takes years to develop brand recognition and quality but just a push of a button to damage or even destroy it, if the pricing is not set up knowledgeably. As the technology becomes more sophisticated, it will eliminate such questionable practices as overbooking, which aims at compensating for last-minute cancellations by taking in more than 100 percent reservations. Besides the question of whether

overbooking is ethical and, in some countries, even illegal, better technology would definitely improve the quality of service provided by properties that engage in this practice.

Another area where technological advancement had a great impact on hotel pricing is the Internet. Its use as a booking tool has created a new level of pricing transparency and tiered competition. It also penetrated the negotiation of corporate rates. Many hotels see the effect of the Internet as both good and bad. The good side is that website bookings are growing every day. As more customers become familiar with their favorite hotel websites, hotel companies have started investing heavily in website development and upkeep, which gives them several advantages. First, the cost of online bookings is lower than for bookings made through other distribution channels. Companies do not have to pay commission because the booking is direct, circumventing all intermediaries. Online booking also provides an opportunity to monitor inventory in real time without reliance on a distributor willing to share and regularly supply data. Last but not least, it generates loyal customers by making them eligible for bonus points, which they cannot earn if they use an Internet intermediary.

That is exactly where the flip side of the Internet lies. The intermediaries are getting more powerful and growing significantly in volume. Because most of them show all hotel rates on their website, they make the information accessible to any computer user. One way to meet the challenge of more powerful intermediaries, especially if hotels need to move inventory, is to utilize auctions where the name of the hotel is not disclosed to the customer until the transaction is finalized. Such action, however, calls for extreme cau-



tion so that it does not damage a hotel's reputation or threaten its strategic partnerships. As intermediaries become bigger, rate transparency will increase to the point where it will drive the market, especially when computer literacy and Internet access become the norm.

Moreover, the Internet allows non-branded hotels to compete more heavily with the branded hotels because they can now be displayed just as readily. Without significant advertising expense, they can compete on price. For some markets this does not matter, especially when the brand is powerful enough to charge the premium and get the business. In highly competitive markets, however, the competition creates an additional strain for the individual property. Many branded hotels must now compete with other brands through the traditional distribution channels and with nonbranded hotels on the Internet, which, in principle, lowers hotel rates. A frequently adopted strategy is to invest heavily in website development and customer loyalty programs, assuring excellent website functionality and that customers are rewarded for booking directly through the hotel website rather than through the website of a third-party intermediary. Both Fairmont and Starwood, for example, utilize their high-quality loyalty programs in this way.

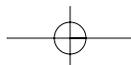
Internet booking also changed the way corporate accounts are negotiated. Because many companies now require that their employees make business travel arrangements via the corporate website, the placement of a hotel or a brand on this booking tool is of strategic importance. Being listed first in the accommodation section, for example, may bring in a higher volume of business and thus substantiate a lower negotiated rate.

▶ LONG-TERM STRATEGY FOR THE INTERNET

Because hotels cannot expect that Internet distributors will go out of business, they smartly conclude that a partnership with the devil is better than a fight with him. Besides using their own websites, hotel companies are also making sure that the cost of their transactions goes down continuously so they can compete even at lower rates—while maintaining a good relationship with their carefully selected online intermediaries.

There is a large number of distributors to choose from. On one end of the spectrum is, for example, Expedia, which allows participating hotels to control their rates, meaning a hotel can change its rates any time it wants. At the other end are companies, such as Hotel Reservation Network (HRN), that bind hotels contractually to a locked rate that cannot be changed. Some hotel chains do not want to partner with these distributors because they like pricing flexibility and want to make sure their rates yield as much as possible.

Adaptation to new technology has been the biggest component of change for intermediaries as well. Companies that do not have the most current technology working in real time or allowing hotels to yield rates in real time are usually not considered a suitable distribution partner for some chains. On the other hand, companies that invest in real-time technology to yield rates are ideal partners because, as the industry sees it, they work with, not against the industry by permitting hotels to raise or lower rates in real time. “They work with us,” says Caroline Shin. “They give data to us very frequently so that we understand the travel pattern bookings on



their website. Then we compare it with what is happening on our website and also what we are getting outside the Internet to make sure that our market mix is set appropriately.” Pricing flexibility, compatibility with the desired hotel image, and protection of its strategic partnerships, together with cost, play important roles in selecting an intermediary.

► THE ROLE OF CREATIVITY IN PRICING

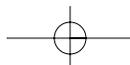
Creativity, either of an individual or a team, can and often does lead to innovative pricing ideas. However, its application must be specific, not just directional. It is not enough to state, “We have to do something about our occupancy level.” A pricing campaign must target a number of sold rooms or generated revenue that is required in order to break even or to do better. This specific approach injects efficiency into allocating marketing money to areas where it is most effective and in periods when it is desired. If there is no task direction or overall pricing leadership, the most creative idea may book only ten room-nights instead of one hundred. It may generate more customer loyalty, but that is something the hotel may not need at the moment, although it could be an acceptable outcome in a low-season month. Pricing leadership helps team members understand the hotel’s current situation and direct money and creativity to do exactly what is needed. Creativity comes up with the idea, which serves as a vehicle, but spending marketing money the smart way is a matter of experience in innovation, which turns the idea into a successful product. Creativity also plays a large part in employee satisfaction, and it lowers turnover.

In a sluggish economy, some hotels start paying attention not only to profit as the bottom line but also to revenue. This means they monitor closely the accrued cost as well as the generated revenue, thus achieving the maximum yield. Interestingly, contemporary price leadership may take different forms. It could mean, for example, elimination of smoking rooms throughout the property. Many U.S. motels are revamping rooms, ripping off cigarette-damaged furniture and carpets, and designating them as nonsmoking. This saves on maintenance and adds to overall packaging flexibility when the business is hurt by lackluster demand. This tactic means drapes, carpets, bedding, and other furnishings must be replaced less frequently; it also mitigates fire risk and enhances cleanliness and overall safety.

► THE ROLE OF HUMAN RESOURCES IN PRICING

Some large chains recognize that pricing is a complex issue and that they need to get better at it. There is a new focus on analyzing the culture of pricing (how it is being done) and how it can be improved. This approach is reflected even in the kinds of people chains are hiring.

Although the majority of staff involved in strategic pricing are in the hotel industry and have a background in revenue management, others are in the airline industry and have in-depth travel revenue management experience. Some chains have sought access to this experience by hiring from outside the hotel industry. This is to encourage diversification of thinking and new ways of thought—completely out of the box, as the traditional team members are joined by researchers doing a different kind of optimization analysis. The goal could be as radical as trying to manage risk or optimize to-



ward the railroad industry and its scheduling. On the surface, these tactics have nothing to do with revenue management per se. A lot of experience in optimizing difficult travel, however, can only be gained by bringing in people with different backgrounds in consulting or with in-depth Internet experience. In order to move pricing and revenue management to a different level of thought, a new mix of people is necessary. For this approach to work, adequate training must be in place.

In this respect, basic HR functions, such as hiring and training, have an impact on pricing. What is necessary is not only to train personnel in quantitative core skills but also in strategic thinking. For example, when a hotel does not want to take a specific piece of business, it must ask such questions as: What is the revenue? What is the rate? What am I displacing by this decision? Where do I think this will go? How does it help my RevPAR?

Hotel managers must become more analytical so they can use all the new tools now available. When reports are created, team members must be taught how to use them. A lot of training must be provided for corporate executives, general managers, and regional revenue directors as well. They all must be trained to think more strategically and to understand analysis and the reports so they can help their individual properties.

► DIVERSIFICATION: THE IMPROVEMENT OF THE PRICING PROCESS

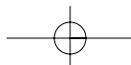
As noted, exclusive hotel industry experience may lead to ossification due to one-sided judgment and the inability to see beyond the familiar. From this perspective, experience is

both an asset and a liability. It is human nature to take for granted the way things are done after being in the same environment for a while. Therefore, hotel chains are continuously creating and refining pricing strategies to accommodate not only different market segments but also different situations a hotel may face based on occupancy levels.

Corporate HQ tries to identify these different situations and associated variables. “It is almost like a bag of goods, a bag of pricing strategies that should be tested,” says Caroline Shin. Hotels are given the full menu and encouraged to try a certain strategy if they are in a specific situation. Depending on the region, an individual property may use one set of strategies more than another. In a weak economy, however, the chains have to work harder and be more flexible because the market is overflowing with demand. Adapting step by step, a hotel may apply a different strategy every week. The problem for the corporate office is to identify situations a hotel might be in and seek remedy. For example, if group bookings are low this week but competitors are full, how can the property make up the difference with transient or leisure business? The general manager may ask the corporate team, “What pricing strategies can I use in order to fill my house?” Then he or she may ask, “What else worked before for other hotels, and what may work for me based on my market specifics and market characteristics?” That way he or she can test each strategy using the provided tool and personal experience.

► PRICING: SUPPORT AND PROTECT

The corporate pricing structure is also in place to support and protect members of the



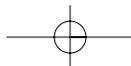
chain in a number of areas including pricing and partnerships. The corporate office sets guidelines for hotels in terms of pricing structure and the market segments they deal with. Fairmont Hotels and Resorts, for example, focuses on four segments: transient leisure travel, group travel, business travel, and wholesale. The corporate structure provides guidelines about how the segments fit with each other, how they cross over, and where they reside in the overall pricing structure. This information is necessary because every segment acts differently. Most market segments are dynamic and require frequent rate adjustments. One exception is the wholesale market, where pricing is still largely done the traditional way: A wholesaler provides a net rate, marks it up, and sells it to the general population. There may be a hidden cost, however, if the distribution chain includes an operator acting as a middleman between the wholesaler and the supplier.

When setting up the overall pricing structure, one starts with the retail rate, which is a bucket of premium or best available rates (BAR) charged on the open market. They usually do not carry any restrictions, such as cancellation fees, and they are fully billable. Depending on the level of occupancy, one of these rates is available on any given day when the hotel is not fully booked. It is up to the yield management system to identify which BAR to offer. All other rate types, such as discount rates and prenegotiated rates, are determined in relation to the retail rate. For instance, a corporate rate for a high-volume client will be probably set lower than the BAR rate that is estimated to sell most during the period when the contract is in place. This way the rates are nested within each other in a manner that makes economic sense.

The corporate pricing guidelines follow two main criteria: to maximize revenue and to protect key partnerships. While the hotel sales force negotiates contracts with key partners, such as longstanding corporate accounts or wholesale volume accounts, they make sure to protect these partnerships and provide them value. At the same time, they take every opportunity to maximize revenue. One cannot survive without the other, reiterates Scott Farrell. However, it is up to the hotels themselves, with guidance and additional research, to determine in their marketplace what their pricing structure should look like.

A diversified corporate team, with a mix of people with a hotel industry background and others skilled in optimization modeling, fulfills an additional function. It acts as a risk prevention mechanism, a necessary prerequisite for managing the risk inherent in pricing. Any chain with a wide variety of hotels must make sure the properties are covered in all kinds of situations. One risk containment scenario might be that the chain, in response to a changing demand curve, acquires a type of business that the brand has not catered to traditionally. Caroline Shin explains, “Sheraton did not take on airline crew business because we did not want crew members lingering in the lobby; it affected our brand image. But we thought maybe we could start taking that when our RevPAR index or occupancy slips to a certain point. So we are trying to change the standards of different market segments we are willing to take.”

On the international scale, another risk management plan would be analyzing operational cost and determining whether to close down part of the hotel if market research shows occupancy will not be high enough. When PESTEL (political, economic, sociocultural, technological, environmental, legal)



analysis indicates demand will drop precipitously for an extended period (due to political unrest, economic crisis, or health scare, for example), instead of hoping for the best and running a full house with a full staff, the hotel may decide to shut down floors or restaurants and save cost until the market picks up again. Selection of the appropriate strategy will depend on the market specifics and protection of the image. A property may opt to close down several floors over the weekend if it caters mostly to business clientele staying during the week. It would not, however, suspend room service, although unprofitable, if that is considered an integral part of the offered product. In a worst-case scenario, the chain may decide to sell properties in global risk areas when it determines the external circumstances make it difficult to raise occupancy on an ongoing basis.

► BETTER UTILIZE YOUR DISTRIBUTION CHANNELS

The Internet creates a new level of transparency as it allows the opportunity to maximize profitability. There is now a multitude of channels to choose from. Understanding the cost of each channel in relation to the value of provided service has an impact on the quality of pricing decisions. Therefore, it is necessary to determine how much revenue bookings through an Internet intermediary generate and whether or not they justify the accrued cost. There is also a tremendous risk involved. As discussed earlier, one of key guidelines of corporate marketing is that partners are protected. Just because there is a new Internet

site it does not mean a chain can use it and advertise a lower rate, which would undermine a partnership of many years. In terms of cost, the chain must review its pricing strategy not only by market segment but also by distribution channel. “Several years ago, we would not consider the cost of distribution in our ROI. Today we do,” concedes Scott Farrell.

Another challenge is to keep up with new Internet sites. The chains must reevaluate constantly and prioritize their yield so as to choose which channels to keep or drop. Fairmont Hotels and Resorts, for example, applies the 80–20 rule. They focus on the 20 percent of the online wholesalers that capture more than 80 percent of the business. As Scott Farrell puts it, “Why would I play with the other 10–12 percent? I only have so many hours in a day to manage. I may as well work with the lion’s share.”

► QUALITY ABOVE ALL?

Criteria for selecting an online distribution partner vary by price levels as well. Budget and economy properties are driven mostly by financial considerations, while upscale and luxury hotels are more concerned with compatibility. As for chains, they ask two basic questions: (1) How can the partnership increase our brand recognition or a brand reach, and (2) How much is it going to bring us in terms of revenue or profitability? Their choice has to match the brand first, and then it has to drive the revenue. If the brand is equaled with quality, online providers that project a connotation of cheapness will not be considered at all. The quality image refers not only to the hotel asset itself but also to how and where this asset is sold.



Fairmont Hotels and Resorts, as a quality brand on the luxury side, cannot compete on price. The quality of their product and the offering of the experience must be considered by the customer at the price being offered. When their hotels play with price, the corporate office watches closely. Scott Farrell explains, “If our property wanted to shift their rate by \$50, I would ask why? Give me the case behind it and tell me what you are going to do to make up the additional \$50 you are going to lose. If they come back to me and say they are moving their rate from \$300 to \$250 while driving a certain volume, I would make them go through the process of determining what incremental volume they will need to make up for the \$50 in loss.” In other words, pricing decisions must be driven by ROI, not only a feeling. Feelings and experience may be involved, but properties must present a strong case based on the estimated ROI and what they plan to get out of the proposed strategy. It allows them to go into the pricing change with their eyes open. They also must consider how the competition will respond. A carelessly lowered rate may lead to a price war.

► SPEED AND STRATEGY

The speed and immediacy of exposure via the Internet have reshaped how marketing campaigns are conducted. Having eliminated the delay of exposure to marketing collateral material, such as brochures or newspaper advertisements, hotels can conduct targeted discount mini-campaigns on their own websites when the yield management system indicates a drop in occupancy for specific dates. In a similar manner, brand recognition can be enhanced by a carefully orchestrated online

auction. The South African hospitality group Protea (2000) was among the first in the industry using this method by offering their prospective guests the opportunity to bid on a limited number of weekend getaways in their properties that needed to boost occupancy. By setting a minimum bidding price, the integrity of the hotel image was protected. Similar auction systems, used to encourage room-night sales during slow periods, are nowadays available in the United States and Canada via several Internet intermediaries.

For chains in particular, a long-term strategy in distribution pricing is paramount. It stipulates the criteria and accepts or rejects short-term adjustments depending on what is happening in the industry, what is new in the technology, and who the new players are. In terms of corporate hierarchy, pricing is formulated and executed on three levels: (1) strategy, (2) tactics and execution, and (3) measurement. Strategy comes first, followed by tactics meant to support that strategy and their execution. Finally, the achieved outcome is measured against the set benchmarks. If the strategy is sound, it will last longer than the other two steps. Frequently, new tactics must be implemented; these drive the execution and the measurement. This requires a development of proprietary criteria for measurement and their continuous adjustment to changing conditions.

► PRICE ELASTICITY

Contrary to the traditional view that hotel rates are, in the long-term, generally inelastic, price elasticity is receiving a lot of attention nowadays thanks to yield management. Its goal is to take advantage of and to cover the entire spectrum of the customers’ ability to



purchase. Price elasticity allows hotels to capture customers who do not mind paying the high rate as well as those who are more price-conscious. This can be done in a number of ways. By using different room categories, a luxury hotel can have on the same day suites available at \$500 and entry-level rooms at \$200. Every room rate category has a different value proposition associated with the incremental revenue. If the variance between a standard room and a deluxe room is \$75, the latter should provide an adequately greater value to the customer. The result is a clear product differentiation, which can be also achieved by stay restrictions or by the use of fencing. Examples of physical differences, or fences, are room type, view, amenities, and location. Nonphysical fences may mean different customers, transactions, or consumption characteristics. These bear many similarities with airline pricing strategies, which differentiate the product by, for example, cancellation restrictions or last-minute availability of a prenegotiated corporate rate. The result is nested pricing, allowing properties to have a very high rate available on the same day as a rate that is more attractive to the lower-end customer.

► NEW AREAS OF PRICING AND YIELD MANAGEMENT

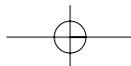
Hotel pricing strategies traditionally have been limited to setting and adjusting room rates and other ongoing activities. In order to survive in the current dynamic, competitive, and even dangerous global environment, hotels and resorts are taking on other types of business, some of which are one-time projects. Organizing shows, festivals, and conferences or undergoing renovations requires a new type of core competency. Therefore, in addition to mastering current pricing strategies, hotel practitioners must acquire project management skills, such as those that are taught and practiced by Project Management Institute (*pmi.org*). Mastering these skills will make hotel team members capable of maximizing yield from project-type functions the same way as they optimize revenue from room rates.

7.5 A DAY IN THE LIFE OF A REGIONAL REVENUE MANAGER

Paul Chappelle

As the sun rises, so does the stack of reports on my desk. Every morning I am greeted with the accomplishments of the day, week, month, and year before, all in the form of paper-and-ink reports roughly 2 inches thick. Each report

attempts to explain the basic numbers pertinent to the smooth function and revenue generation of a hotel. Although I enjoy the development and success of the latest revenue management systems, I still prefer to do things



the old-fashioned way. These reports are my comfort food for revenue management.

The first meeting of the day is the revenue maximization meeting, or revmax for short. The meeting consists of the hotel's revenue manager, general manager, director of rooms, and the entire sales and catering staff. We discuss what happened the day and night before, and we evaluate sales leads from the previous day. As a group, we decide what our approach is to each lead. We evaluate whether we will pursue the lead or refer it to a nearby hotel within the company. The revenue manager upholds any decisions made regarding the rate strategy for that day and for the next few days, which are set at that time. Any changes that need to be made are communicated throughout the day.

The next meeting of the day is the revenue management meeting. This meeting, facilitated by the revenue manager, happens once a week and is attended by the general manager, controller, director of sales and marketing, director of rooms, reservations manager, and most operations managers. In this meeting, similar to the daily revmax meeting with the sales team, we go over the numbers in much greater detail and for a much longer time. We look at the number of room-nights and rates generated through the different revenue channels, trends both good and bad, upcoming marketing strategies, and the results of past marketing strategies, and we talk about anything and everything that may affect the number of room-nights and the rate the rooms are sold at the hotel for the past year and as far out as one year.

After the leadership team has identified our opportunities, we discuss a plan for how we are going to exploit these opportunities and how we are going to measure whether what the team decided was an effective strategy. Each of these meetings is repeated in

some form or another in person or over the phone for all the hotels I oversee.

► RESPONSIBILITIES

The daily, weekly, monthly, and yearly forecasts are the most important responsibility of a revenue manager. I am responsible for forecasting the number of rooms and the rate at which the guest will pay for a given period. I generate these forecasts based on many critical factors and some less critical. History is always a good indicator of what the future will hold for hotels. The correlation between what happened last year on this day in this month to what happens today can be between 60 percent and 80 percent.

What is going on in the area can have a huge impact on the occupancy and rate of a hotel. Local events such as festivals, races, and tournaments can all affect the number of additional persons in the city who need hotel rooms. The competition can negatively affect your hotel by running a special promotion. On the other side of the coin, the competition can and will create a positive situation for your hotel when they have abysmal service or a ramshackle product.

Other factors that may contribute to a forecast are additions to the supply of hotel rooms in the area, weather, seasonality, pickup and departure patterns of conventions, and the ever-changing local and regional economies. However, when it comes down to it, a forecast is exactly that—it is a guess of what we think may happen or what we really want to happen.

Once the forecasts are completed, they are used to project the amount of variable costs associated with running a hotel—for example, labor, or how many housekeepers, front desk clerks, and hash slingers we are go-



ing to need for a given period. Goals are set for sales and catering managers based on the forecast. The quarterly and annual forecasts are reported to the corporate offices for the purpose of forecasting the entire company's projected revenues and expenses. In turn, that information is put out to the stockholders and others with a financial stake in the company.

Forecasts and tracking of how we did compared to the forecast take up 75 percent of my time. The other 25 percent is spent exploring new opportunities for revenue growth, maintaining the various revenue channels into the hotel, managing the reservations department, acting as the liaison between the sales department and operations, and having fun.

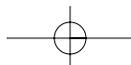
Additional duties include exploring new revenue channels for the hotel. I have been known to visit the local competitor on a particularly busy day and offer a shuttle to our hotel and a no-line guarantee—this as the line behind the front desk stretches out the front door and halfway to the street. I am responsible for researching the demographics of the travelers coming to the area. Why are they coming? Are they traveling because of business, conventions, leisure, or are they part of a contract piece of business? How often do they come? How long do they stay? How much do they spend when they come? Where are they coming from?

The most important thing I do as a revenue manager is to ensure the different revenue channels are set up and functioning properly. These channels include the hotel brand's generic toll-free vanity number and central reservations office, the convention and visitors bureau, the local hotel's reservation and front desk, the Internet, and the global distribution system (GDS). The most critical of these channels is the Internet, which includes the brand website. Only a few years ago

it was GDS that was the most critical. In our chains, in 2004, Internet channels generated almost twice the volume of the GDS. However, the GDS is still crucial for the survival of almost every hotel. It is the system that travel agents and some of the Internet sites use to make reservations at my hotels. It contains information about rates and availability at a hotel. It must be checked daily and routinely maintained. The scary thing about the GDS is that most hotels don't know they have a problem until several months down the road. As technology grows and more and more people stop calling and start booking through their travel agents and directly over the Internet, so does the need to understand the GDS and exactly how it affects the hotel. When one of our competitors initiated a cleanup of their GDS, it resulted in several million dollars in additional revenue in six months.

Managing the reservations departments is the easy part of my job. Interacting with people is always easier than trying to interact with numbers and reports. The staff must be kept up to date on changes in strategic goals of the hotel and changes in marketing the discount and frequent-stayer programs. I am responsible for ensuring that the training of the reservations staff and anyone else who takes reservations is consistent and current, complete with ongoing positive feedback.

It is key that a revenue manager be skilled in the art of diplomacy. As the liaison between the operations and sales departments (see Waller, 7.2), I sometimes must mediate any challenges that may occur. Part of the diplomacy is understanding each department's strategic goals and how both departments depend on each other for their own survival. The easiest and simplest approach to serving as a liaison between the two departments is facilitating frequent, open, and honest communication between all parties.



Having fun is one of my key goals in working at a hotel and in a regional capacity. It is important to maintain a balanced approach to work in a hotel. It is easy to get burned out trying to do too much. The nature

of the hotel is that it is open 24 hours a day and 365 days a year. Anything that can happen to a person on any given day can happen at a hotel as well.

7.6 HOTEL SALES ORGANIZATION AND OPERATIONS

Margaret Shaw and Susan V. Morris

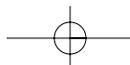
► SALES AND MARKETING

Sales and marketing are related concepts, and each is an art and a science. Sales flow from marketing. Marketing, well stated by Lewis et al. (1995), “is communicating to and giving target market customers what they want, when they want it, where they want it, and at a price they are willing and able to pay.” The primary focus of sales is on the communication aspect of marketing. It involves direct personal selling to potential customers that you and your organization have the right product, in the right place, at the right time, and at the right price—be it a hotel, a restaurant, a casino, or contract food services.

Marketing is getting and keeping a customer, a macro approach to managing a successful business. In a broad sense, marketing is the development and delivery of a successful product, that is, the development and delivery of a satisfied customer. Hotel sales comprises finding that customer and matching his or her specific needs with the right product offering, a micro or one-on-one approach to customer satisfaction. For example, a meeting planner from Texas Instruments (TI) is planning an annual sales meeting to be held in Dallas. From

a macro perspective, this planner has selected the city and is searching for full-service lodging accommodations for 200 TI sales representatives for a five-day conference. From a micro perspective, he or she visits several hotel alternatives and meets with the hotel sales representatives to find the best “fit.” Various aspects of the meeting being planned are discussed including dates, rates, guest room accommodations, function room requirements, food and beverage services, and so forth. It is the job of the hotel sales manager to learn the specific needs and wants of the planner and “create” the right product, place, time, and price for a successful conference.

A successful conference is what the planner is really buying, not bricks and mortar. Thus, successful selling is understanding the real needs of the buyer, communicating how your product and service can best respond to those needs, and then delivering it. In another context, McDonald’s Golden Arches markets fun, simplicity, good service, and a good price. McDonald’s sells friendly service, good value for price paid, convenient locations, and those delicious golden chicken nuggets on which many of us grew up. Ronald McDonald is an ancillary product, a public relations endeavor,



which augments and supports the idea or concept of kids and why they are special.

Public relations, advertising, and special promotions often support the selling effort. Advertisements for the Ritz-Carlton Hotel Company are directed to their business traveler clientele. Such advertisements incorporate both the selling and marketing aspects of this upscale hotel chain. The company is simultaneously selling hotel rooms to busy business executives and marketing a hotel that “remembers your needs,” and is hallmarked by the vision implicit in their slogan “ladies and gentlemen serving ladies and gentlemen.” A travel agent, a corporate travel manager, or a secretary, however, may have handled the actual purchase of the hotel room. Thus, the Ritz-Carlton advertisements support the sale, but they do not actually make the sale happen.

► SALES AND OPERATIONS

Sales is the critical link between marketing and operations. While hospitality professionals may espouse marketing, all too often it becomes ignored in the daily hustle and bustle of operations. It is the role of sales to help bridge this gap and find ways for the key customer-contact members of the hotel to keep the promise of marketing.

Selling starts by the professional sales managers prospecting, making contacts, establishing relationships with clients, uncovering their specific needs and wants. But it doesn't end there. Sales is also the host or hostess greeting restaurant patrons. Sales is the front desk clerk welcoming a guest at the local Holiday Inn or at the Waldorf-Astoria in New York City. Sales is the housekeeping staff delivering the extra set of towels re-

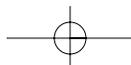
quested by a guest. Sales is the sommelier in a gourmet restaurant recommending wines to complement an entrée choice. Sales is the front office cashier saying, “Thank you for staying with us. We hope you enjoyed your stay.” It is amazing how a simple thank-you can express appreciation for a customer's patronage and bring them back.

All client-contact personnel of a hospitality organization perform personal selling either consciously or unconsciously. This includes staff who does not regularly have guest contact, such as the credit manager. One of the authors nearly lost a \$100,000 annual account when a poorly trained credit manager called the client to collect a payment that had not yet been billed. A well-trained and motivated employee who understands how a hotel works is key to successful selling. This is accomplished through the hiring and training process, and although the many facets of human resources are beyond the scope of this chapter, its importance to guest satisfaction cannot be overstated.

In this particular context, however, the hotel's human resources department can perform services on behalf of the sales department by recruiting sales associates who understand the nature of the hotel industry and its place in the broader category of the services segment of business. Services are different from products and require specialized knowledge and training to be competitive.

Because hospitality is very much a part of the services industry, it is useful to understand how services differ from products. Those characteristics that are unique to the services industry product include perishability, simultaneity, heterogeneity, and intangibility.

Perishability refers to the short shelf life of the hospitality product. If it is not sold today, the potential revenue from the sales of



that product is gone. A hotel room has a 24-hour shelf life. A restaurant seat has a two-hour shelf life. Manufactured goods have a much longer period of durability. If a television set is not sold today, it can be sold tomorrow or next week. The potential revenue from the sale of that product is not lost. But a Tuesday-night hotel room cannot be resold on Wednesday. Tuesday has come and gone. If the hotel guest room goes unsold Tuesday, the potential revenue lost from that vacant room cannot be recouped.

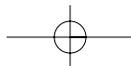
Simultaneity means that production and consumption occur at the same time. How can you produce a guest experience without the guest? Our customers, in a sense, are part of the assembly line. They need to be present for final production of the product offering. A vacant guest room produces nothing. Yes, the carpeting is installed; the bed is made, the bathroom plumbing works. But it all just exists until a guest arrives to use it. Simultaneous production and consumption is a unique challenge for successful operations in hospitality management. The guest needs to be present, because many of the facets of the service involve performances by hotel staff.

A related service characteristic in hospitality is *heterogeneity*. Heterogeneity refers to the variability of service delivery. Guest service agents have their moods. Customers have their moods. All have personalities of varying shapes and sizes. Hospitality is a very people-oriented business. Service personnel change from shift to shift, typically on an 8-hour schedule. Though operational manuals exist in most hospitality establishments, rarely are policies and procedures followed in an exact manner. Guests' "personalities," too, can change throughout their stay, and it may have nothing to do with how they were treated by service personnel. Dealing with heterogeneity

in service operations is dealing with reality. Mistakes will happen. But more importantly, mistakes can be addressed. Often a simple apology can win back a customer regardless of who was at fault when a mistake happens.

Intangibility is a fourth major characteristic of service businesses. Some consider it the most important component to recognize. Intangibility refers to the highly intangible nature of the service product offering. Intangibility is a feeling; it is having a sense about something that one cannot fully articulate. The intangible nature of the service product cannot be prejudged. Consumers cannot really see, touch, smell, hear, or taste a service product prior to consumption. They can only anticipate. One can test-drive a car before an automobile purchase is made to see what it feels like to drive. But a hospitality customer cannot test-drive a hotel weekend package or a restaurant meal prior to consumption. The intangibility aspect of hospitality emphasizes that service delivery is critical to customer satisfaction. Most customers have an idea of what to expect. But, in the end, they are really not sure of what they are buying until the hospitality experience actually takes place. Finally, after the service has been consumed, the guest has only the memory of the performance.

The foregoing unique characteristics represent the foundational challenge to the hotel's sales staff: they must find a way to promise performance and experience in such a way that the hotel's operations departments can deliver on the promise. If the essence of marketing is finding and keeping a customer, then the sales promise is fundamental to that effort. Operations' most important role is the keeping of that promise to the customer—having that customer walk away with a positive and memorable experience and want to return again.



► MANAGEMENT OF THE SALES PROCESS

Sales management is effectively directing the personal selling efforts of a hospitality establishment. It involves managing the sales process from both an individual and team perspective. In other words, sales management addresses the logistics of sales solicitation and the development of sales account executives to enhance their sales productivity. Sales account executives need to manage their day-to-day activity, sales teams need to coordinate their efforts, and customers need to feel that they are working with a professional and well-managed organization.

There are several components to hospitality sales management. These include sales organization, sales account management, recruitment, training and development, goal setting, and performance appraisals. Sales organization refers to departmental and individual organizational issues and inventory management. The following section focuses on the sales organization aspect of hospitality sales management.

► SALES ORGANIZATION

Sales organization can be viewed from three perspectives. These include departmental organization, individual planning of sales activity, and inventory management. A sales department needs to be organized, and sales managers within that organizational setup need to coordinate their efforts. Sales managers need to plan or organize their individual activities on a daily, weekly, and monthly basis. Allocating the sale of inventory to various customer segments needs to be managed, as

well. These are important issues in hospitality sales management, and following is a more detailed discussion of each.

► Departmental Organization

Organizing a sales department means determining who is going to do what. Sales solicitation needs to take place, administrative tasks need to be completed, and managerial decisions need to be made on a regular basis. In medium- to large-size hospitality establishments, a director of sales and/or a director of marketing coordinates these efforts. In smaller operations, it is not unusual to have one individual responsible for all of the above. For most bed and breakfast operations in the United States and Canada and the small boutique hotels in Europe, for example, the owner and/or manager of the establishment typically handles sales activities.

Figure 7.4 is a sample sales organizational setup for a midsize urban hotel targeting business clientele. The sales managers in this example are organized by target market and by geographic territory. Sales manager 1 is responsible for corporate accounts located in the immediate downtown and surrounding area. Sales manager 2 is responsible for national corporate accounts. This refers to companies based in other areas that conduct business or have the potential to conduct business at the hotel. Both of these sales managers solicit group and transient business from their account base.

Sales manager 3 targets meetings and convention business from national association accounts. This business may include executive board meetings, committee meetings, regional conferences, and annual conventions.

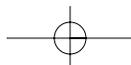
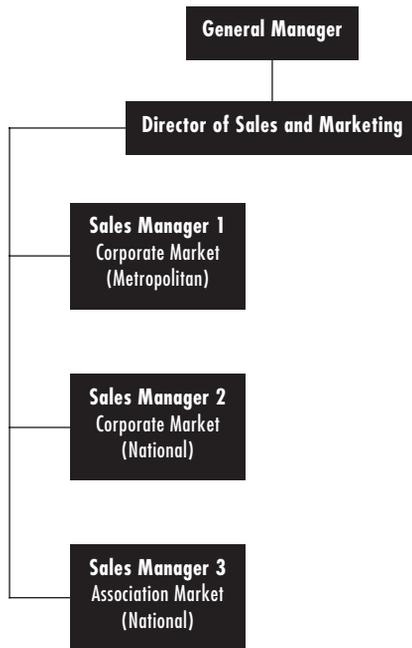


Figure 7.4 Organization of an Urban Hotel Sales Department



In this example, once group events have been booked they are turned over to the conference services department for service delivery. Both the sales managers and director of conference services report to the director of sales and marketing. The sales team meets weekly to discuss issues pertinent to achieving the department's sales objectives.

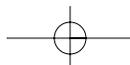
Weekly sales meetings are very much a part of a sales department's organizational structure, be it a sales force of two or twelve sales account executives. They are critical for effective communication within the department. At these meetings, each team member highlights his or her weekly activity with regard to new prospects uncovered, tentative

bookings, verbal definites, cancellations, etc. (Verbal definites are bookings where clients have verbally committed their meeting or function to the facility but a signed contract is not yet in hand.) In other words, sales managers share with each other progress reports on various accounts they are currently working on. Thus, each team member gets an up-to-date informal report on the status of all current sales activity.

For example, one sales manager may be working on a tentative booking but considers it weak because of strong competition for this particular account. Call this Group A. Another sales manager may have a new prospect with similar space requirements interested in the same dates. Call this Group B. Assume, however, that the property has the capability of booking only Group A or Group B over the same dates because of space limitations. When these types of issues surface at sales meetings (which they frequently do), discussion will occur raising the following types of questions:

- What is the likelihood that either group will eventually book its business at the property?
- What is the estimated profitability and/or contribution margin for each group?
- Is either group a regular client?
- What is the likelihood of repeat business from either group? In other words, what is the long-term profitability for each?
- Can either group consider alternative dates? (A very important question.) What would incite them to move dates?
- Do convention history reports match their current space allocation requests?

These are just a sampling of questions that need to be raised and answered. It is a



never-ending process in hospitality sales management to search for the best fit for both the buyer and seller.

► CONCLUSION

The organization of sales management is the process of directing the personal selling efforts of a hospitality establishment. It involves effectively managing the sales process from both an individual and team perspective. Sales or account managers need to manage their day-to-day activity; sales teams need to coordinate their efforts. Sales account management involves developing, maintaining, and enhancing customer relationships. Sales managers develop expertise for specific market segments, industry segments, and/or customer accounts, and common traits among successful sales account executives include

self-confidence, high energy, empathy, enthusiasm, and a sense of self-worth.

This chapter introduces the foundation for hospitality sales and marketing. First and foremost, sales flow from marketing. If management doesn't have a marketing mindset, then sales efforts will be all for naught.

Marketing is giving the targeted customers what they want, when they want it, where they want it, at a price they are willing and able to pay. Sales is direct communication with potential customers letting them know we have what they want. In many respects, sales is the link between marketing and operations. Operations is essentially the delivery component of marketing and the final determination of a happy (or unhappy) customer.

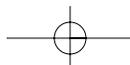
Marketing begins, transcends, and ends with the consumer. Sales makes sure it happens.

7.7 PUTTING THE PUBLIC IN PUBLIC RELATIONS: THE CASE OF THE SEATTLE SHERATON HOTEL AND TOWERS

Louis B. Richmond

The powerful world of nonprofit organizations can make or break a hotel. This is a very strong statement when you consider our public relations firm, Richmond Public Relations, represents the Seattle Sheraton Hotel and Towers, a hotel that has potential revenues of \$80 million to \$100 million a year in rooms, food, and beverage and employs more than 600 people. Although the fortune of large

convention hotels usually rests on the approval of large associations, meeting planners, Mobil and AAA awards, and myriad corporate decisions, nonprofit organizations definitely play a role in a hotel's financial success. The time and effort that hotels allot to public relations and nonprofits can profoundly influence destination decisions of meeting planners and major associations.



► DONATIONS, DONATIONS

Every day the Sheraton receives three or four letters from local organizations soliciting donations of cash, rooms, and meals for benefits, auctions, and raffles. These seemingly simple requests add up to approximately 1,000 requests every year. All of these organizations have nonprofit status and are doing valuable work in the community. They range from the symphony, opera, and ballet to large hospitals and universities. The smallest of preschools and local grassroots citizen activist organizations are also regular solicitors. Each of these organizations has a mission and purpose, that, if realized, could make the community a better place in which to live. Because mostly every request is valid, how does the hotel or public relations firm go about deciding which organizations to support? Each decision must be based on a benefit to the hotel.

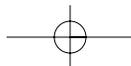
Let me give an example of how working with the community has, indeed, benefited the hotel. One such request was a handwritten note from an elementary school student requesting a complimentary room for her school raffle. We were promised in the letter that the hotel would be mentioned in the raffle and given as much publicity as possible. This school was located 20 miles from the hotel in a small town that, on the surface, did not seem it could provide a lot of return benefit to the hotel. Due to the sincerity of the request, we decided to donate a room package. About four months after the donation was made, our firm received a call from someone who worked for a very large company in Seattle wanting to make room reservations. He called me rather than the hotel because he wanted me to know he was booking the Sheraton be-

cause of its donation to his child's school. Because we were the only hotel to donate a room to his child's school auction, he felt an obligation to have his guests stay at the Sheraton. Therefore, his company was moving from another hotel to ours because of a donation that in actuality cost about \$35. The potential revenue from his account was valued in the thousands of dollars. Additionally, his company is a member of trade associations that hold numerous regional and national conventions that can also influence business to the Sheraton.

Other benefits linked to this donation were that the Sheraton's name was seen in print on more than 1,000 raffle tickets, and people who attended the drawing were made aware of the Sheraton's contribution. The return on investment from this one donation was enormous in direct revenue alone and also generated an excellent amount of goodwill in the local community. All of this revenue and potential revenue was due to one small donation!

► ASSOCIATIONS, NATIONAL MEETINGS

When large associations choose Seattle as the host city for their national conferences, the individual hotels bid on being the host hotel. The host hotel is in a favorable situation concerning room rate and food and beverage functions. A well-thought-out public relations program can play an important role in an association deciding which hotel to use. Working with the sales staff, the public relations firm can obtain as much information about the association as possible and decide how they can influence the association to use the Sheraton.



A major southwestern association was in the process of deciding which hotel to use for its Seattle conference. With research, we found that this particular organization supported a major national charity that was also supported by the Sheraton. We contacted the director of the local charity organization, who, in turn, phoned his counterpart in the southwestern city. He was informed of the Sheraton's sponsorship of his nonprofit and that one of his large corporate sponsors was looking for a hotel to use in Seattle. The director of the southwestern nonprofit called his contact in the corporation and apparently did a good job of convincing him to use the Sheraton. Whether or not the decision was made directly because of this call or the combination of other sales efforts, most of the sales and marketing staff concurred that the hotel's support of the local nonprofit organization was instrumental in securing a major piece of association business. We have found that the nonprofit world will go all out to help corporations that help them. In addition, nonprofit organizations can effectively utilize this win-win model of partnership between business and nonprofits to solicit help from other companies and businesses.

► SOCIAL EVENTS AND FUND-RAISERS

The social catering business is fiercely competitive. Nonprofit organizations are always seeking the lowest possible rates and prices, but because of their standing in the community, they sponsor important events at hotels. The more prestigious the organization, the higher the ticket price and the more potential that the attendees can generate revenue for

the hotel in the future by booking rooms for other events. Most members of the boards of directors of nonprofit organizations are leaders in the community and business world. Their recommendation can go a long way toward securing a favorable image for the hotel in the local market.

In dealing with social catering events for nonprofit groups, we always inform organizations that the hotel staff will work closely with them to ensure the success of their event. However, the nonprofit must clearly understand that the hotel is a *for-profit* business. We have to strike a deal that is good for the organization and, at the same time, good for the hotel. The organization is helped to understand that the more profitable the hotel, the more support can be provided for the nonprofit organization. If the hotel does not make a profit, it cannot continue to offer its support. By offering the organization special services rather than lowering the price to the point where the hotel will not make any profit, we ultimately help the organization raise even more money for their event. We have come up with many creative contributions to nonprofit organizations that not only increase their potential for raising money but also favorably highlight the services of the hotel.

One of the hotel's most popular donations to nonprofit organization auctions is a series of cooking classes for ten people that includes a kitchen tour and lunch. This item, usually set at a minimum bid of \$500 to \$700, enables a group of people to combine their financial resources for a potentially higher bid. The cooking classes also enable the hotel to highlight one of its chefs and give people a back-of-the-house view of the kitchen. We have tracked the success of these cooking classes and found that almost every one of the



participants has booked reservations in the hotel restaurants. What is given away as a donation comes back many times over in increased business and greatly enhances the perception of the hotel's goodwill in the community.

Another innovative donation was a tour with the hotel's curator of the corporate art collection. The Sheraton, well known for its art collection, employs a professional curator. Most of the major social service organizations and nonprofit organizations show an interest in the arts, and this type of donation stands out from the overnight accommodations typically offered by other hotels.

The hotel's limousine can also play a part in the donation program. The use of the limousine always adds a prestigious quality to a gift and raises more money for the organization while costing the hotel only a minimal labor and operating cost.

Making a major donation to social catering fund-raisers that are booked in the hotel helps ensure the event will be rebooked the following year (assuming the food and service are high quality). The ability to predict annual bookings provides savings in sales staff time and marketing efforts.

When major social catering events are held in other hotels, the Sheraton also makes significant donations to show organizations it is interested in supporting their cause no matter where their event is held. Of course, the hotel remains interested in having the group book their event at the Sheraton next season. However, our agency always encourages the Sheraton to purchase a table when events are hosted in another hotel, for several reasons: to show support for the organization; to let the staff see how the event is managed at another facility; and to compare quality of service and food.

▶ HOLIDAY CARD PROGRAM

Another significant community contribution we make is our annual holiday card. Each year we select a different organization to be the beneficiary of this program. We print the Sheraton corporate holiday card and then provide the organization with an extra 10,000 cards for its own fund-raising campaign. These cards are printed at no charge to the organization as long as they provide us with original artwork. The organization that is chosen is always selected so there is a return to the hotel. The organization chosen in 1987 had previously held a major event at another hotel. We informed them that if they switched to the Sheraton, they would be the beneficiaries of the 1988 holiday card campaign.

▶ CONTROL

The hotel has certain prerequisites in making donations to nonprofit organizations.

1. The organization must be a 501(c)3 organization recognized by the Internal Revenue Service.
2. A request must be received in writing on the organization's stationery.
3. The organization must return to the hotel written notification of the donation through a raffle advertisement, program book, or announcement.
4. The donation must be in a live and not a silent auction whenever possible.
5. All responses are filed, and when a request for next year's gift arrives, we check to see if we received the recognition we required.



Different levels of donations are awarded based on the event and the amount of recognition received. The Sheraton has donated gift certificates to the dessert buffet and a dinner for 100 people in Fullers, the hotel's award-winning restaurant.

Our commitment to the community is based on the belief that each member of the organizations we support can act as a public relations spokesperson for the hotel. When businesses help organizations, their members and volunteers usually develop a loyalty to the giver. Our goal is to infiltrate the community aggressively as a good corporate citizen. At the same time, we want the community to know that we need their business. The more business they give us, the more help we can return to the community.

► CLASSIFICATION OF ORGANIZATIONS

The nonprofit world can be divided into six general areas, as set out below. For each classification, major examples of the many possible representative organizations are listed.

Cultural Organizations

Most of these organizations have a large and prestigious board of directors. There is a tremendous amount of potential room business and catering functions from the organizations and their board members.

- Symphony orchestras, opera companies, ballet companies, chamber music organizations, and presenting organizations, as well as campus cultural organizations
- Art museums, museums of history and industry, science museums, and craft and folk art museums

- Major, alternative, and community theater companies

Health Organizations

- Hospitals
- Medical schools
- Research centers

Educational Organizations

- Alumni associations
- University and college fund-raising campaigns
- High school and PTA organizations
- Preschool and private school fund-raisers

Religious Organizations

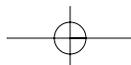
- Churches
- Synagogues
- Religious schools and camps
- Adult religious community organizations

Social Service Agencies

- United Way
- Community charity groups
- Neighborhood grassroots organizations
- Charities such as Easter Seals and March of Dimes
- Food banks
- Cystic Fibrosis Foundation
- Juvenile Diabetes Foundation
- Boy Scouts of America

Social and Fraternal Organizations

- Rotary
- Kiwanis
- Elks
- Shriners



▶ MARKETING APPROACHES

Before you approach an organization, you need to have a plan that puts you on the offensive rather than the defensive. Many times hotels find themselves responding to people asking for money rather than actually going to the organization to tell them they are there to help them. The more creative you can be, the easier it will be for the organization to work with you. Your plan should include researching the following items:

- The members of the board of directors and their company affiliations
- The needs of the organization
- Their budget—easy to do because they are a tax-exempt organization
- Past catering functions—where they were held, prices, and number of attendees
- Housing needs of the organization and how you can help

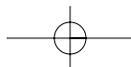
Read newspapers about the organization and totally familiarize yourself with their goals. Make sure you meet with a major staff member and a board member. To meet with just one or the other simply means you will have to hold another meeting to review what you discussed at the last meeting. The most important overall consideration is to understand the nonprofit organization's needs and to work together with their representatives for a win-win solution.

Make sure you work out before the event how the hotel will be credited and recognized. Recognition of the hotel's contribution is often assumed, forgotten, or left to chance. The hotel can be recognized in many ways. A complimentary ad in a season's program or

newsletter will go a long way in justifying your investment. If you are trying to attract the organization, it must have an audience that is part of your marketing mix. Calculate what it would cost to advertise in their program book throughout the season. Bargain with the organization for a complimentary ad for the amount of the donation you are making. Other possible returns for your donation include:

- Having the organization give the hotel complimentary tickets that can be used by the staff for entertaining clients. This strategy can be effective if concerts are sold out and your hotel is in possession of the only tickets.
- Asking the organization to give you access to their mailing list. This strategy can be crucial in trying to publicize a new weekend program or the opening of a new food and beverage outlet.
- Requesting the organization to commit to a two-year contract. This strategy not only makes it easier for the organization to plan ahead but helps the hotel in projecting revenues.
- Donating meeting rooms to the organization for seminars and retreats if food and beverages are ordered. Most organizations have to pay for meeting facilities.

One of the most important aspects of any donation is the follow-up. Make sure you are aware of the news created by the organization you are helping and make them feel they are part of *your* organization. If major events take place, have the hotel's general manager send a congratulatory letter. If someone has a birthday, have your pastry chef send over a birthday cake. If you can help them publicize their events in your newsletter, work with



them and inform them you are giving them complimentary publicity. Work together all the time so that each organization receives something from each other, if possible, on a fairly regular basis.

► CASE STUDY

Our firm approached the board of directors of the Seattle Symphony in hopes that they would move a major luncheon to the Sheraton. We told them we would be happy to offer complimentary room accommodations for the conductor and his wife for the duration of the symphony season if they would help influence their women's organization to use the Sheraton for their luncheon. By hosting the conductor and his wife in the best available room, we not only built up a good relationship with the conductor but also showed the board of directors we were very interested in supporting the symphony.

By proactively informing the board of directors that the Sheraton was committed to the symphony, we, at the same time, helped them understand our need for their board members' business so we could continue our support for them. Donating to significant cultural institutions is often a sound business decision because most members who serve on boards of large cultural organizations are the community's business leaders. They know the wisdom of a sound decision, and, indeed, continue to offer ongoing support to the Sheraton. As a result of the Sheraton donating a room to the conductor and his wife, the symphony moved the luncheon to the hotel. The hotel maintains a strong relationship with the conductor, and the symphony continues to use the Sheraton for their room, food, and beverage business. In a classic example of a

win-win situation, the symphony supporters, their board of directors, and their musicians act as public relations spokespeople for the Sheraton. In many ways, the results of this strategy have ensured several hundred people working on our behalf.

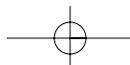
► PRESS AND MEDIA

It is important to remember that the people in the press are also part of the community. Ultimately, donations to nonprofits will touch many press and other media people in personal ways by helping their local organizations, such as schools, hospitals, and social service and cultural organizations. They will be especially interested in publicizing events with personal impact. It is also important to realize that hotels with many events create a buzz that generates more local press activity. Organizations like to be involved in active and exciting hotels. If a certain number of events are in one hotel and twice that amount are in another hotel, the more active hotel is bound to have more requests for events.

► COSPONSORSHIP

Another effective way to maximize public relations in the area of nonprofit donations or charities is to cosponsor events with radio stations or newspapers. The exposure that can be provided through this medium not only places your property with other responsible companies but helps spread the word of your company's involvement automatically through the media.

Take advantage of your local and regional radio stations to develop joint promotions. Work with the promotion director to find out



how the hotel can help the station's favorite charity. Donate the ballroom or smaller meeting rooms for dances, parties, etc., with a guarantee of a no-host bar. The radio station acts as a free advertising service to draw people to the event. It is in their best interest for their advertisers to draw large audiences. Have the nonprofit organization receive an admission charge to the event so that it is up to the nonprofit organization to also try to draw a large audience. By working with the radio station and the charity, the hotel not only maximizes its exposure but also increases its potential revenue.

► REGIONAL ORGANIZATIONS

Identify major nonprofit organizations in feeder markets and work with them in their major fund-raising events. This will help increase weekend business and act as a reinforcer to advertising placed in those markets. The impact of regional organizations can be just as strong as your local organizations. If your property has a strong regional weekend market, this program can be an effective way to increase room business.

Identify corporations that have branches in feeder cities with ties to major nonprofit organizations. Any time your property can get its name across to the public in a major feeder market, you reinforce advertising dollars or actually save them. Remember, the return on investment, if carefully monitored, can be significant.

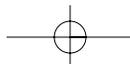
► CONCLUSION

The more times your hotel property is written and talked about, the more people automatically identify it with positive community activity. It is eventually in the best interest of a community to ensure the business success of your hotel when it knows you will help its favorite charities or organizations. In order to work with the community, you must educate the community to work for and with you. The best recommendation is that made by the public, and only when public relations truly works with the public can the property benefit. By putting the public in public relations, the public speaks for you and your property and results in profits through public relations.

7.8 MINI CASE: REVAMPING THE MARKETING RESEARCH DEPARTMENT

You're the new director of marketing research for the Mississippi Region Affiliated Resorts (MRAS), located along the length of the Mississippi River from Minneapolis to Memphis. This branded distribution company

of 38 independently owned and operated hotels has become a major player in its regional competitive marketplace. As part of the company's strategic plan, however, it has been determined that the structure of the market is



changing, and the general future direction of the hotels will be toward more sales and service to the conventions and meetings market that has become increasingly important because of the central location of the chain.

To become more competitive in this burgeoning market, the company has undertaken and encouraged an ambitious remodeling program among its members that has upgraded the furnishings, fixtures, and equipment of the hotels. The hotels are also committing to a minimum of the following capital investments:

- 60,000-square-foot ballroom
- 30,000 square feet of meeting and breakout rooms
- 15,000-square-foot registration and pre-function areas

With these upgraded facilities, the company feels it can compete effectively for the

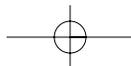
lucrative conventions and meetings market with the hard-flagged chains.

This strategy and capital investment requires a consequential change in research paradigms. As the director of marketing research, you've been requested by the company president to propose a completely revamped research department that will reflect this new strategy and be designed to help the independent member hotels market their new facilities most effectively.

Propose a model marketing research department for your firm that will produce the sorts of data that hotels in the chain can use to help compete with the national chains. Include in your proposal what new sorts of data would be most useful, where those may be found, and how they might be specifically useful to reflect the new mission.

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SUGGESTED READINGS

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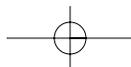
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SOURCE NOTES

- Chapter 7.2, "Building Market Leadership: Marketing as Process," by Fletch Waller.
- Chapter 7.3, "Consumer Decision Rules and Implications for Hotel Choice," by Bianca Grohmann and Eric Spangenberg.

- Chapter 7.4, "Hotel Pricing," by Marta Sinclair and Carl R. Sinclair.
- Chapter 7.5, "A Day in the Life of a Regional Revenue Manager," by Paul Chappelle.
- Chapter 7.6, "Hotel Sales Organization and Oper-



ations,” by Margaret Shaw and Susan V. Morris, adapted from *Hospitality Sales: A Marketing Approach*, by Margaret Shaw and Susan V. Morris, Copyright © 2000 by John Wiley & Sons, Inc. Reprinted by permission of John Wiley & Sons, Inc.

Chapter 7.7, “Putting the Public in Public Relations: The Case of the Seattle Sheraton Hotel and Towers,” by Louis B. Richmond.

