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Boutique Hotels

How to Survive in a Down Market - Getting Back to the Basics



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Boutique hotels are a relatively new concept to the hotel industry. Until the early 90s, the standard model had typically been a large full-service hotel with numerous banquet and meeting rooms. The large size and its economies of scale, helped insure greater profitability. Along came the concept of boutique hotels which was contrary to that formula. The typical boutique hotel is less than 100 guest rooms, limited service, zero to one boardroom, and any food and beverage outlets are generally outsourced.

The emphasis in boutique hotels is on selling guest rooms (where the profit margins are significantly higher than in banquets and meetings) by enticing a guest with its high design, the promise of a unique experience, and lower rates.

With a public ready for change, combined with a strong economy and unprecedented demand, the formula worked. Independent boutique hotels flourished and owners enjoyed tremendous ROIs. Riding the wave of high demand in urban markets, independent boutique hotels were able to capture business without incurring significant marketing expenses, such as marketing representation companies, reservation companies, and a large direct sales force. Working with a few third party, commission based companies and placing listings in appropriate venues was usually enough to put the hotel on the radar screen. As a result of the high demand and great success, little, if any attention was given to knowing who the customer was, where he or she came from, and why the hotel was selected.

After eight years of "feast", the depressed economy, coupled with tumultuous world events, has contributed to a dramatic drop in demand and many independent boutique hotels are operating at significant losses. To respond to the changed conditions, most hoteliers lowered rates and reduced expenses. Although that is a necessary short-term strategy, on its own, it is not enough to generate profits and to compete with large chains and brands that have the greater financial resources and staying power.

The key to success is to lay a solid foundation, based on business and marketing basics, which will withstand changing marketing conditions; and to incorporate any new or emerging trends into those fundamentals.

Those basics are:

1. POSITIONING:

Before going forward with a plan to reverse the downward business trend, the first step is to understand your hotel's position in the market place. That will determine which segments of the market you will attract; what rates to charge, per segment, per season; and what services and amenities to offer. A firm understanding of who you are, where you want to be in the marketplace, and what you offer (relative to

your competition and general market conditions), will determine all strategic plans and will influence any decisions to be made with changing market conditions. With an economic downturn, it is easy to rush into decisions in order to generate business, based on what the competitors are doing. But a clear focus and clear understanding of your position, will avert costly mistakes for both the short term and the long term.

2. MARKET SEGMENTATION:

In a depressed market, it is tempting to try to be all things to all people by using a "shotgun approach" to marketing your hotel, assuming that the greater the exposure, the better and business is business regardless of who it is. But by staying true to the positioning and by determining which segments of the market are viable for your hotel, you can then ensure that all marketing strategies are cost effective and actually reach the target audience.

Therefore, it is important to establish the market segments for which your hotel is designed and for what your prices are geared; then base all budgets and forecasts on those segments. By understanding each potential segment, i.e. who it is, the reason for the buy, and each segment's travel trends, the hotel is in a much stronger position to maximize occupancy and yield. The obvious examples are weekend guests vs. mid-week corporate transients that have different needs and different travel trends. Other examples are Rack Rates (which is typically a function of high demand), Tour and Travel business booked by wholesalers, and Corporate Group business. By accurately identifying all potential segments and understanding their travel trends and needs, the hotel is able to proactively solicit those specific markets, efficiently and cost-effectively, without wasting valuable resources to reach other markets. The concept is to play your strengths.

3. BUDGETING AND FORECASTING:

With the first two elements in place, it is important to establish budgets with each segment budgeted on a daily basis. With small hotels, each occupied room has an impact on overall revenues, both in the short-term and long-term. For example, in a 100-room hotel, one room equals one occupancy point. By creating a well-thought out budget (considering demand trends per segment, city-wide trends, holidays, etc), the hotel is able to determine the best mix of business on any given day to impact occupancies and yield. Typically, the large meeting and convention hotel will yield its business by selling out to a certain percentage of occupancy in advance, and then push high rates to fill the remaining rooms. But in a small boutique hotel that caters almost exclusively to transient (not group) business, the opposite is true. In order to maximize rates, it is important to identify peak periods one year out and establish rate and market segment guidelines. Many small, independent hotels sell out prematurely at discounts and lose the opportunity to let high demand fill their hotels at top rates. Understanding the supply/demand dynamics is the most cost-efficient method to sell your hotel. Even in a down market, there are still peak demand periods. Sell effectively during peak periods, and revenues are positively impacted, with no expense.

4. DIRECT SALES:

Direct Sales is the most controllable and quantifiable element of the marketing effort. The emphasis of direct sales is to create an account base of identified segments by prospecting for new business and to maintain existing business. As production of this identified business fluctuates, new accounts are opened and closed to ensure that targeted goals are continuously reached.

Budgets and needs will determine how many sales people are needed to impact particular markets. Direct Sales, properly structured, is the most cost efficient element of any marketing plan. Sales, like any profession, is a skill, and hotel sales people, even more so in a buyers market, need to be proficient. Hire well-trained professionals. Get the most from the sales staff by creating an organized sales department and devising a proactive sales plan. It is easy for the sales person to work reactively in a small hotel, because of limited staff. More often than not, valuable selling and solicitation time is spent on non-related sales issues such as handling inquiries from other sales people selling THEIR products; customer service issues; accounting issues. The goal of the department is to create and maintain a database of accounts that equals the budgets. All plans, goals, and strategies stem from that quantified and specified goal i.e. roomnights, average rates, and revenues. In order to achieve the goals, each sales person is accountable for results. Therefore, establish goals and targets which include sales activities i.e. sales calls and site inspections; new accounts; advanced bookings; as well as consumed business. Train other staff to handle the non-direct sales issues to maximize the sales effort.

5. WEB SITE:

The advancement of technology in the past ten years, coupled with the proliferation of home computers, has changed the way many people buy travel, services, and products as well as conduct research. For an independent hotel with limited marketing resources, an effective web site will create and strengthen its presence in the local, domestic, and international market place. Many times, web site designers are more technical than marketing oriented. It is important to keep in mind that the simpler and more user friendly the web site is, the more effective. Technical "bells and whistles" do not necessarily translate to bookings. Simultaneously, it is critical to expertly create and implement an online distribution strategy to ensure optimal web site exposure. The creation and ongoing maintenance of the web site is a new expense to the industry, but can actually replace costly brochures, tariff sheets, mailings, and other printed materials.

6. INTERNET BOOKING COMPANIES:

Internet booking companies have gained popularity due to the down economy and the hotel's willingness to offer highly discounted rates in order to drive business. Many articles have recently been written about how the discount rates given to Internet bookings companies have eroded the hotel's ability to coordinate pricing. If understood and used correctly, this segment can provide an independent hotel a quick fix to generate business. One key to using this to your advantage is to carefully research each potential company, and select ONE. The tendency is to participate in many programs for increased exposure. But in actuality, all the companies compete with each other. The hotel will find itself in a no-win position when it tries to offer the same rates to each company because each competitor wants the most favorable rates. The key is to create a partnership. Choose the company that is more compatible with the hotels' needs, and offer exclusive rates. By doing that, the internet company is motivated to market the hotel by creating favorable placements and adding many "bells and whistle" to drive business into your hotel.

By getting back to basics and by working with each element only as part of the whole plan, boutique hotel owners and managers will not only take control of their business and be able to weather any storm, but will approach simple and difficult business decisions alike, from a position of strength and confidence.

From small boutique hotels to large convention properties, Brenda Fields has created and implemented highly successful marketing and yield management programs that enable owners to achieve target results despite market conditions. With extensive expertise in pre-openings and repositionings, Brenda was responsible for the successful opening and stabilization of the Paramount Hotel in New York, for which she developed and executed a direct sales and yield management program in addition to a national and international marketing campaign. A native of Kentucky, Brenda holds a B.S. in Psychology and English from Murray State University. She is lives on Manhattan's Upper East Side and enjoys cooking and entertaining in her cottage in upstate New York. She can be contacted at brenda.g.fields@verizon.net

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