

Winning in a Reset Economy: Three Steps to Success

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By Brenda Fields

Unless we have been living under a rock in the past year, we would know that the world's economy has plummeted and that the hospitality industry has experienced an unprecedented drop in RevPAR, the primary indicator of profitability. As the world is adjusting to this new economy, the hospitality industry is searching for ways to recover.

According to Smith Travel Research (August 13, 2009 article by Chad Church), "The outlook for 2010 looks slightly better than 2009, but the industry expected to end 2010 with decreases in all three key metrics. Occupancy is projected to end 2010 with a 0.6-percent decrease, ADR is forecasted to year with a 3.4-percent decrease, and RevPAR is expected to end with a 4.0-percent decline."

Although this outlook is less than optimistic, there are strategies that can be implemented to turn your business around regardless of your base of business transient vs. group or the type of property i.e. convention, boutique, or resort or regardless of your marketing budgets. The key is to understand the reset economy and how it has impacted your mix of business and the type of business, resulting in new demand periods. Once that understanding is in place you are in a position to establish strategic plans to incorporate the new business environment.

In this reset economy, there is no "one size fits all" approach. The successful business owner/manager is one who understands the new environment and understands his/her business on a micro scale; and will then customize an approach that best fits his/her needs.

This article will address the key components to put your property(s) on the path to success in this new economy and maintain success regardless of conditions.

The Evaluation Process:

Smith Travel Research has compiled data from most major markets which show how business has changed ranging from trends to market segments. Trends indicate that leisure travel has replaced corporate travel as the primary market, which in turn changes the days of the week which represent the highest and lowest occupancy. It is important to know where your business comes from i.e. domestic vs. international and what specific markets in those two. The more information you have regarding your business, the more effective you will be in determining effective strategies which can easily be changed in an environment that changes. There are too many variables at play to determine a solution that works for everyone.

Therefore, compile historical data, if you don't already have it, which will show how your property(s) was sold on a daily basis i.e. what mix of business, what rates and what was impacting your business from outside sources (conventions, hurricanes, Olympic games, etc). That information will help you understand what has changed so that you can set up a well-founded plan.

It is not too late to understand and to segment your business. Depending on the complexity of your business, there are either software programs which record this or it can be done manually so that you start producing data that you provide a solid history for future analysis and evaluation.

The Planning Process:

Determine your position in the marketplace. 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 or filling specific need periods. It is tempting to rush into decisions and change course in the hopes to generate business if your property's performance is below expectation. But a clear focus and clear understanding of your position, and then to establish strategies consistent to that positioning will avert costly mistakes for both the short term and the long term.

Create a detailed rooms budget. A solid rooms budget is one that will tell you where you want to be and how you will get there. Effective budgets are based on a daily basis, which clearly has incorporated demand factors and well-founded assumptions, by day, by market segment, with rooms and rates per room per segment. Each market segment has its own peaks and valleys on a daily basis as well as on a seasonal basis. This is the result of factors such as holidays, conventions, and seasonal trends. Incorporating all of these factors will create an accurate projection of occupancy and average rate when laid out on a daily basis as opposed to taking "short cuts" by just using monthly totals and projections to establish budgets. This also lays the foundation for improved budgeting in other departments, especially food and beverage. For example, 100% occupancy made up of groups which are out of the hotel all day, is not the same as occupancy made up of other segments from which you can assume a certain percentage to impact room service or the restaurants.

By accurately identifying and quantifying all potential segments on a micro basis and understanding each market segment's travel trends and needs, you are able to proactively solicit those specific markets, efficiently and cost-effectively, without wasting valuable resources, as well as understanding when to change course when market conditions change.

Define your objective(s). Some strategies produce short-term results, while others pay off in the long term. For example, is the goal to generate immediate revenues or is the goal to establish a market presence that will grow over time? More often than not, the two goals are mutually exclusive. For example "image ad" campaign is designed to create awareness over time, without having an immediate impact on revenues. Conversely, a significant rate reduction a special promotion can have an immediate impact if planned, executed, and marketed properly. But this strategy can have a negative long-term impact depending on your hotel's position in the marketplace and which segments are targeted.

So in defining your objective(s), it is important to tie in which segments will be impacted i.e. group, weekend, or rack rated business, and the impact of strategies in the over-all mix of business. Robbing "Peter to pay Paul" does not accomplish anything and is pretty much a waste of time and resource useful to look carefully at the segments.

Set realistic expectations. It is tempting to try to be all things to all people by using a "shotgun approach" to marketing your hotel, assuming that the more 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 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 strategies for each market segment to include the means to reach them and a time frame to realize results. Each marketing resource will produce a different ROI and different timetable to impact business. By understanding each potential segment, i.e. who it is, their needs for the buy, and each segment's travel trends, the hotel is in a much stronger position to maximize occupancy and yield by using its resources wisely.

Look into the market place in order to quantify potential business per segment. For example, in a down market, how much business, per segment, can be realized even when the strategies are effective and on target? Should you look for a windfall of roomnights or revenues, or, is it wiser to measure market share and use that as the measurement to evaluate the effectiveness?

Rate Parity and Revenue Management: How often have you tried to book a hotel and found that the best rate was on a third party web site? And even more astonishingly, how many times have you then called to hotel to be informed that you were better off booking that rate on the third party web site? You need to be a Chief Financial Officer to know that this mismanagement of rates hurt your profitability in two ways i.e. selling a room for less than market and paying a fee to an outside agency instead of booking it thru your own resources which are part of the overhead.

It is also critical to establish a pricing or yield philosophy. 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 market segment guidelines. Many small, independent hotels sell out prematurely at discounts and lose the opportunity to let high demand fill their hotels at high 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. And maintaining rate parity sets you apart as a hotel on which your customers can rely.

The Implementation Process:

By establishing a thoughtful and detailed plan based on exact business elements, hotel owners and managers will not only take control of their business but will be able to weather any storm, but will approach simple and difficult business decisions alike, from a position of strength and confidence. The confidence and knowledge will direct the best course of action to take, whether jumping into the Social Media area, web site optimization, and/or strategizing for direct sales.

Based on the hospitality industry's experts' analysis, it is unlikely that our industry will recover soon and it is evident that we are in a new economic environment. Taking the time to understand your business on every level will place an owner/manager in a position of strength when deciding the best action to reverse any downward trends. It's never too late.

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About Brenda G. Fields fields & company



Representing a "who's who" roster of clients, Brenda Fields of fields & company, has worked with a number of industry leaders and innovators, from hotelier Ian Schrager and real estate developer Harry Macklowe, to global brands including Starwood Lodging Corporation, Planet Hollywood, Vornado Realty Trust, Choice Hotels International, Olympus Real Estate Corporation, and Apple Hotels. In addition to major hospitality brands, Brenda's consulting practice includes a wide range of independent properties around the country, such as The Kitano Hotel, New York; Woodlands Resort and Inn, Summerville, South Carolina; the former Bel Age Hotel in Los Angeles, CA; Mondrian Hotel, West Hollywood, CA, and more.

Brenda brings a hands-on approach to problem solving along with her two-decade long record of results as both a consultant and corporate sales and marketing to each challenge. She has honed a reputation for helping owners and operators achieve target results through development and execution of cost effective, workable strategic plans that maximize profits and build stronger, sustainable brands.

Brenda is a member of the International Society of Hospitality Consultants; currently on the Americas Board of Directors for HSMIA; is Immediate Past President of the Hospitality Sales & Marketing Association International in NYC; and was named one of "The Top 25 Most Extraordinary Minds in Sales & Marketing" by HSMIA for 2007. She was awarded the "Leadership Development" award by HSMIA in 2009. And additionally, was awarded "Best of Show" by HSMIA in 2006 for her contributions on the Awards and Recognition committee. Brenda serves as a member of the Editorial Board of *Hotel Executive* is a regular contributing editor to international publications *Hotels Online*, *Hotel Resource Weekly Network News*, *eHoteliers*, and *4Hoteliers*. She

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