

## Finding, Qualifying, & Optimizing Rate Efficiency

By [Liz Uber](#), Vice President of Revenue Management, Pillar Hotels & Resorts

Revenue Management is finding the right mix of business, at the right time, and at the right price to maximize revenue. As the revenue management discipline grows there are new tools that help us in ensuring we are driving as much revenue as possible. One of the ways we analyze this is to look at how efficient our rates are, using a rate efficiency report. Rate Efficiency looks at what retail rates are selling for and how much you might need to discount those rates to find additional negotiated or leisure business. A Rate Efficiency report also assists Revenue Managers in identifying what business is the most valuable and whether they should target more of that business.

There are three steps to identifying the right mix of business and therefore achieving Rate Efficiency. The three steps are identifying your consumer, qualifying your consumer, and optimizing the hotels consumer mix.

### 1. Identifying

Determining what type of business is in your market is the key to finding rate efficiency at your hotel. The first step is to figure out what pieces of business are available in your market. Parking lot shopping is an easy way to identify what consumers are available in your market. Parking lot shopping involves having a hotel sales associate drive through a competitor's parking lot, early in the morning or late in the evening, looking for company vehicles, out of town vehicles, or government vehicles. This gives the hotel a quick insight on who is in their market.

Being an active member in the Convention and Visitors Bureau (CVB), Local Chamber, or Rotary Club gives the hotel firsthand knowledge of what is moving into or out of the market, while offering great leads on who to pursue as potential consumers. Hitting the streets is one of the best ways to identify what is in your market. Often this is the most difficult to find time for, however, it can also produce the biggest rewards. I would encourage every hotel to conduct at least one monthly sales blitz of your market. A sales blitz can be something as simple as tagging a bag of popcorn with a quick note, "Give Hotel Uber a call if something 'Pops Up.'" This makes it easier to get through the gatekeeper and determine who the decision maker is.

The World Wide Web is one of the most helpful tools in finding potential pieces of business. By simply searching your competitive sets' phone number you can sometimes identify information such as, what groups have rented out Meeting Space at the hotel or if there is a wedding block in house. Visiting the comp sets respective websites also might provide some insights, as many hotels will list which companies they work with closely.

One of the most sophisticated ways to find out who is staying at the comp set is by obtaining the HT360 report by Travelclick. This report identifies what accounts and reservations are being booked through the Global Distribution System (GDS) to your hotel and your comp set. The report assists with identifying stay patterns, average rate, and length of stay. The report is only helpful in markets with large GDS bookings. If the subject hotel has meeting space, there are several different reader board shopping services that identify what groups are hosting meetings, how often they are meeting, and specifics such as group size.

### 2. Qualifying

Once the hotel has identified what is in the market, the hotel needs to figure out what business to pursue. This is an important part to reaching rate efficiency. One of the big pieces of information needed at this point is, how much a particular piece of business is paying at other hotels. Once we have determined the competitive rates, we need to begin qualifying the targeted consumers. By contacting the "decision maker" for the piece of business, we can fully qualify the business. Some information the hotel will want to obtain is: length of stay, how many rooms the group will need, the duration of stay, where else are they looking, how do they book their business, the number of people in the room, what additional amenities (transportation, gym pass etc.) are needed, and how much influence the decision maker has. As the hotel continues to receive answers to questions, the hotel might uncover additional, follow-up questions, as it relates to the business.

It is also very important to fully qualify the costs associated with the business before agreeing to a specific rate. For example, a hotel might book a construction crew; ten rooms for thirty days at a sixty dollar rate, and if the hotel fails to properly qualify the consumer (asking how many guests to a room and as a follow-up question what time the crew will head to work each morning) prior to agreeing upon rate the hotel may find themselves actually losing money. In this scenario the construction company might place four crew members in each guestroom, making this a quad occupancy stay. The hotel didn't ask, thus they did not qualify this business properly. The crew might not have to be at their construction site until 10am; leaving the crew to potentially enjoy breakfast twice, once early morning and once prior to leaving for work. The crew might also grab a "to-go" bag on their way to work and enjoy lunch, on the hotel! At this rate guest breakfast costs would reach nearly ten dollars a person and with four occupants per room breakfast costs would be reach forty dollars per room. At a rate of sixty dollars and guest breakfast alone costing forty dollars, sixty-six percent of the daily revenue has already been diminished.

Qualifying questions and answers will vary between segments of business such as Retail, Online Travel Agents (Expedia/Travelocity etc.), qualified discount rates, or non-qualified discount rates. Each of the different segments is important to the overall success of the hotel and might in fact produce higher ADRs than negotiated business. It is important to understand each segments arrival pattern, what drove them to choose the subject hotel, and what brings them to the area, this is usually determined at time of check in. With the data collected the hotel could optimize its respective website to include the key drivers of its market, create partnerships with local demand drivers, or identify when that demand is arriving. All of these can assist in optimizing rate and limiting discounts when possible.

### 3. Optimizing

Once the hotel has identified, qualified, and booked the business it has to re-evaluate the business on a regular basis. This is where the rate efficiency report comes into play. Common questions that arise are: Is the business producing and performing in the manner that was originally planned? (i.e. Is this business really checking in on Sunday and checking out on Friday or has this business changed?) Has the market demand changed? If so, does this piece of business still hold the same value? The table below details what a typical rate efficiency report might look like. Please click on the image to expand:

Rate Efficiency For: Hotel XXXX

	Room Nights					Revenue					ADR				
	CY	% of Total	LY	% of Total	% Change	Revenue	% of Total	LY	% of Total	% Change	CY	Rate Efficiency	LY	Rate Efficiency	% Change
<b>Transient Total</b>	<b>1,349</b>	<b>89.3%</b>	<b>1,406</b>	<b>89.8%</b>	<b>-4.1%</b>	<b>\$145,826</b>	<b>89.5%</b>	<b>\$143,683</b>	<b>92.7%</b>	<b>1.5%</b>	<b>\$108</b>	<b>81.5%</b>	<b>\$102</b>	<b>80.7%</b>	<b>5.8%</b>
Retail	425	31.5%	467	33.2%	-9.0%	\$56,369	38.7%	\$59,117	41.1%	-4.6%	\$133	100.0%	\$127	100.0%	4.8%
Disc Qul	356	26.4%	308	21.9%	15.6%	\$28,488	19.5%	\$24,186	16.8%	17.8%	\$80	60.3%	\$79	62.0%	1.9%
Gov't	80	5.9%	88	6.3%	-9.1%	\$5,825	4.0%	\$7,016	4.9%	-17.0%	\$73	54.9%	\$80	63.0%	-8.7%
Corp	316	23.4%	475	33.8%	-33.5%	\$33,884	23.2%	\$46,588	32.4%	-27.3%	\$107	80.8%	\$98	77.5%	9.3%
Discount - Non - Qul	144	10.7%	53	3.8%	171.7%	\$17,835	12.2%	\$5,973	4.2%	198.6%	\$124	93.4%	\$113	89.0%	9.9%
E-Channel Retail	28	2.1%	4	0.3%	600.0%	\$3,425	2.3%	\$358	0.2%	858.0%	\$122	92.2%	\$89	70.6%	36.9%
Opaque	-	0.0%	11	0.8%	-100.0%	\$0	0.0%	\$446	0.3%	-100.0%	\$0	0.0%	\$41	32.0%	-100.0%
<b>Group</b>	<b>159</b>	<b>10.5%</b>	<b>122</b>	<b>7.8%</b>	<b>30.3%</b>	<b>\$17,183</b>	<b>10.5%</b>	<b>\$11,298</b>	<b>7.3%</b>	<b>52.1%</b>	<b>\$108</b>	<b>81.5%</b>	<b>\$93</b>	<b>73.2%</b>	<b>16.7%</b>
<b>Comp</b>	<b>2</b>	<b>0.1%</b>	<b>37</b>	<b>2.4%</b>	<b>-94.6%</b>	<b>\$0</b>	<b>0.0%</b>	<b>\$0</b>	<b>0.0%</b>	<b>0.0%</b>	<b>\$0</b>	<b>0.0%</b>	<b>\$0</b>	<b>0.0%</b>	<b>0.0%</b>
<b>Total</b>	<b>1,510</b>	<b>100.0%</b>	<b>1,565</b>	<b>100.0%</b>	<b>-3.5%</b>	<b>\$163,009</b>	<b>100.0%</b>	<b>\$154,981</b>	<b>100.0%</b>	<b>5.2%</b>	<b>\$108</b>	<b>81.4%</b>	<b>\$99</b>	<b>78.2%</b>	<b>9.0%</b>

You can see in this example that "retail" business contributes 31.5% of the overall occupancy and almost 39% of the total revenue. You can also see that this segment is down to Last Year (LY) in Occupancy and Revenue. Notice that with occupancy down against LY and ADR up to LY, revenue is largely rate driven, and a simple question to ask would be is my rate too high. Although a few other questions should arise: Is this because we have fewer available rooms for the retail segment? Have we shifted too much of our retail mix to discount non-qualified or corporate (Both at smaller rates)? Did slow demand hinder our decision? Answering some of these questions might lead the hotel in regaining occupancy in this mix of business while maintaining the 4.8% growth in rate, thus driving total revenue even more than the current 5.2% growth.

Another thing to notice at this hotel, while using the rate efficiency report, is the ADR received from our e-Channel and discount-non qualified is actually a higher rated business than the hotels government business. In this example the e-Channel business includes rates sold on Expedia, Orbitz, Travelocity, etc. The hotel, noticing this, would want to replace some, if not all, of the government business with consumers using OTAs. The hotel can target consumers using OTAs, by developing a 3rd party partnership. Partnerships and pay-per-click can lead to improved page placement on the OTA's website.

Depending on the hotels market, it might be worth looking at a rate efficiency report on both a weekday and weekend basis. This is largely helpful for hotels that have different demand generators by day of week.

A hotel has endless opportunities while using the Rate Efficiency report. Markets and consumers change as fast as the weather, and balancing their changes along with the changes occurring at the hotel is a tough act. If a hotel is struggling to grow rate year over year compared to the comp set, the hotel will need to look into what is preventing the rate from growing. Often hotels find that it has continued to take on business from a legacy client that no longer makes sense.

Liz Uber currently serves as Vice President of Revenue Management for Pillar Hotels & Resorts. [Click here for Full Bio.](#)

"Reprinted from the Hotel Business Review with permission from www.HotelExecutive.com"