

BY DAVID PECKINPAUGH, CMP

THE SCORECARD:

HOW HOTELS VALUE YOUR BUSINESS

Revenue management is part science and part art, but it shouldn't be a mystery. By working closely with hotels, you can learn how they assess your meeting's worth.

REVENUE MANAGEMENT, AS PRACTICED BY THE LODGING INDUSTRY, IS THE ART OF PREDICTING FUTURE DEMAND OVER A PARTICULAR TIME FRAME AND EMPLOYING A PRICING STRATEGY TO MAXIMIZE REVPAR (REVENUE PER AVAILABLE ROOM) OVER THAT PERIOD. REVPAR IS DERIVED FROM A FORMULA BASED ON AVERAGE RATE AND OCCUPANCY.

HOTELS HAVE A LIMITED — AND PERISHABLE — INVENTORY WITH ONLY ONE OPPORTUNITY TO SELL IT EVERY DAY. THE DECISION TO BOOK A GROUP'S BUSINESS IS LIKE TRYING TO FIND THE BEST PARKING SPACE AT THE MALL: YOU ASK YOURSELF, "SHOULD I

ILLUSTRATION
BY JOEL NAKAMURA





It is surprising how many groups do not track the value of their account — annual or multiyear revenue — to the hotel or chain.

take this one or will I find a better one closer in?” The hotel has to decide whether to book your group today, or wait — on the chance that it can book a higher-revenue, higher-profit group. That would be the positive scenario, because by not booking your group, the hotel can end up with empty rooms and space, or have to settle for a lower-revenue, lower profit group.

The key variables that influence pricing for your group include:

► **Arrival/departure pattern** —

Find out what group patterns are standard at a particular hotel. A Tuesday-to-Thursday meeting, for example, is problematic for a hotel seeking to pair one group arriving Sunday (and departing Wednesday) with another checking in Wednesday (and departing Sunday). Moving your arrival one day can result in substantial savings.

► **Seasonality** — A basic element of site research is ascertaining which times of year are considered “off-season” and shoulder/value seasons. Ask about specific “need” dates when group rate discounts can be maximized.

► **Lead time** — Booking patterns, which vary from hotel-to-hotel and destination-to-destination, have shortened in recent years. Determine the typical booking cycle of the hotels you’re considering and how your meeting matches up. One rule of thumb: short-term business is always welcome.

► **Transient demand** — Group rate flexibility is “inversely proportional” to transient demand. Groups that have confirmed future rates will benefit as the current rebound in transient demand continues to drive rates higher.

► **Rooms to space ratio** — “Space hogs” have a tough time getting all their needs met, especially during peak season. Site research should include calculation of your rooms-to-space ratio compared to the overall ratio of properties you’re considering.

► **Local catering potential** — Hotels with major function space derive significant F&B rev-

enue from hosting local events. Determining the volume of local catering demand helps assess the availability of meeting space, especially during peak function times such as evenings and weekends.

► **Potential food and beverage revenue** — Most hotels have a per room night revenue target for group business. Make sure you know what the hotel desires ... and how your meeting matches up.

► **Potential incremental revenue** — Ultimately, the value of a group is measured by its “total revenue” contribution. Make sure you have history that demonstrates the total “spend” of your group.

► **Value of account to hotel or chain** — It is surprising how many groups do not track this critical negotiation tool. The value of annual or multiyear revenue can drive significant discounts/concessions with a hotel or within a chain.

► **Risk** — Contractual terms, history, cancellation, attrition clauses ... the assumption of risk has become a preeminent consideration for all associations. Contract language should seek to mitigate the risk assumed by both the meeting sponsor and host hotel.

The following case study * illustrates the decision-making process:

- Say you are the XYZ organization.
- Your Annual Meeting is Oct.16-20; Thursday arrival/Monday departure.
- You block 500 rooms/night (2,000 room nights).
- You can pay a \$125 room rate.
- You will sign a contract with a cancellation clause, but no attrition clause.
- You anticipate growth due to the destination, so you’re asking for more rooms than your history dictates.

You work with the ABC Hotel, which has 700 sleeping rooms.

Rack Rate: Peak Season - \$145

Peak Seasons: March – May; September – November

Meeting Space: 25,000 square feet
Desired Catering Revenue Per Room Night:
 \$65-\$74 peak season; \$50-\$64 shoulder season;
 \$50 or below off season
Peak Demand Days: Midweek
 (Monday-Thursday)
Slow Days: Weekends (Friday-Sunday)

Desired Patterns: Thursday-Sunday; Wednesday-Sunday; Sunday-Wednesday
Peak Season Transient Demand: 200 rooms

Let's see how your needs match up with the hotel.
Arrival/Departure Pattern

Hotel Peak Days: Monday-Thursday
Off Peak Days: Friday-Sunday
Desired Arrival/Departure Patterns: Thursday-Sunday (Monday) or Wednesday-Sunday (Monday) or Sunday-Wednesday
XYZ's Arrival/Departure Pattern: Thursday-Monday (Major check-in, check-out)
Rating:

- 1) Matches off-peak days and desired pattern
- 2) Matches off-peak days or desired pattern
- 3) Off pattern, creates void

Arrival/Departure Pattern Rating: 2

Seasonality

Determine potential displacement if XYZ is meeting in a high-demand time frame:

- Rating:**
- 1) group meets during hotel's off season or fills short term need or holiday period
 - 2) shoulder season
 - 3) peak season

Seasonality Rating: 3

Room Rate

Here's how your group's desired room rate compares with the hotel rack rate:

XYZ group rate: \$125
Hotel rate: \$145
 Percent discounted: 14%
Rating: (On a 1-3 scale, with 1 being good and 3 bad)

peak season	shoulder season	off season
1) 10%-12%	15%-25%	25%-30%
2) 13%-20%	26%-30%	31%-40%
3) 21%-25%	31%-40%	41%-60%

Room rate rating: 2 (Since you are meeting in peak season with a 14% discount.)

Rooms to Space Ratio

XYZ's allocation of guest rooms to meeting space:
 Total hotel rooms: 700 – 200 (transient demand over dates of XYZ meeting) = 500 available group rooms.
 XYZ peak room nights: 500
 Percent of total group rooms: 100%
 Total hotel meeting space: 25,000 square feet
 XYZ meeting space needs: 21,000 square feet
 Percent of space occupied: 84%

- Rating:**
- 1) even or positive rooms to space ratio
 - 2) 10%-15% more space than rooms
 - 3) 16% - 20% more space than rooms or extensive setup/tear down

Rooms to space ratio rating: 1

Catering/F&B

Hotel average catering price per person for:

Breakfast	\$12
Lunch	\$19
Dinner	\$45
Breaks	\$5
Reception	\$28
Hospitality suite	\$15

Total Covers = # of Functions X People in Attendance
 Total Covers X Average Rate = Total Catering Revenue
 Here is what XYZ's catering needs will be:

Breakfasts	0 X \$12	= \$0
Breaks	2500 X \$5	= \$12,500
Lunches	1000 X \$19	= \$19,000
Receptions	1000 X \$28	= \$28,000
Dinners	500 X \$45	= \$22,500
Hosp. Suites	0 X \$15	= \$0

Total Catering Revenue = \$82,000 or \$41 per room night

- Rating:**
- 1) \$65-\$74
 - 2) \$50-\$64
 - 3) <\$50

Catering rating: 3 (Since your catering revenue is \$41.)

XYZ's Total Revenue



Take this opportunity to learn from the hotel what you can do to make your piece of business more attractive.

Contribution to the Hotel:

Room Rate \$125 X 2,000 room nights = \$250,000

Catering Rate \$41 X 2,000 room nights = \$82,000

Total Revenue = \$332,000

Hotel Desired Rate:

\$130 (rack rate less 10% discount in peak season) X 2,000 room nights = \$260,000

Catering Rate Desired: \$65 X 2,000 room nights = \$130,000

Total Revenue = \$390,000

XYZ variance in dollars compared to hotel needs is \$58,000 or 85%

Rating:

- 1) XYZ Group achieves 105% of the hotel's desired revenue
- 2) 104% - 95%
- 3) 94% and lower

Revenue Rating: 3

History

Determine the amount of risk involved for the hotel with XYZ block of rooms:

Rating:

- 1) group is holding the same amount of rooms history indicates
- 2) group is holding more rooms than history indicates
- 3) this is a first-time meeting or depressed industry

History rating: 2

Contract Terms (Risk)

Determine the amount of risk involved for the hotel

Rating:

- 1) contract includes a cancellation and scale attrition clause
- 2) contract includes only cancellation or attrition clause
- 3) contract has no cancellation or attrition clause

Contract rating: 2

Total Ratings Scorecard:

Room rate: 2

Catering: 3

Revenue: 3

Pattern: 2

Space ratio: 1

Seasonality: 3

History: 2

Contract: 2

Total: 18

Hotel Scorecard:

8-11: Excellent

12-17: Good

18-24: Poor

Obviously 18 is not a desirable rating. There are many ways we get told “no” by a hotel, but take this opportunity to learn from the hotel what you can do to make your piece of business more attractive.

► **Ask questions.** What is the ideal piece of business for the hotel over the dates I'm having my meeting? Where can I make improvements?

► **Be flexible about dates.** If the XYZ group can move its meeting to a shoulder season or shift the arrival and departure pattern, it can knock off a point for each, bringing the total rating to 16 (and out of the “bad” into the “good” category).

► **Be flexible about space.** Your ability to compress move-in and move-out dates or give space back to the hotel for evening functions can positively impact the attractiveness of your meeting.

► **Know your group's details.** Have your meeting's history readily available, including rooms, F&B, and ancillary revenue sources — data that can raise your meeting's market value.

While this scorecard may seem overly complex, as planners we need to find out why we get a “no” and work with the hotel to take the mystery out of the relationship.

Good negotiating! ■

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