Inventory and Rate Management in a New World

by John Burns

"Just when we thought we understood the game, they changed the rules!"

If you think this cliché applies to rate management and inventory allocation in hotels, you are right. Looking back two or three years, that playing field on which we used to compete seems remarkably simple and level.

That Was Then

Back then, the starting point was our rack rate. From it, we calculated our corporate, government and entitlement rates (AARP, AAA, etc.). We used it to set our negotiated and consortia rates and, for the small percentage of hotels selling substantial inventory to wholesalers, we calculated the rates we would offer to them based on our rack rate as well.

Our goal throughout, (the Holy Grail) was single-image inventory – identical rates and identical availability of those rates, in all retail outlets – the CRO, the GDSs, the Web and yes, at the front desk. We pursued rate integrity – the same rate everywhere and however we defined it – we strove to meet our commitment to deliver last room availability.

On top of these efforts we added a revenue management layer, a recent arrival to the hotel industry which we hoped would extend the positive impact of painstaking occupancy forecasting. Revenue management turned out to be hard work. It is extensive, sometimes excruciatingly detailed and sometimes difficult to implement in the reservation department and at the front desk. But the bottom line was that it worked. It seems we had the system mastered.

This Is Now

The global economic downturn in 2001, made worse by the Sept. 11 terrorist events, disrupted our comfortable status quo. These were not the only factors, however, that disrupted our inventory management process. Significant (and still emerging) impact has come from the arrival of channel management, Internet-only rates, distressed inventory Web sites, and, most recently, the new prominence and growth in the number of consolidators, like Hotel Reservation Network (HRN) and HDS. To these can be added the potential meltdown of long-established negotiated and consortia rate programs.

Forecasting Frustration

Hotels allocate inventory and assign rates on the basis of forecasted demand. As revenue management techniques and increasingly revenue management technologies are implemented in a hotel, the market is divided and sub-divided into micro-sectors, each with its own occupancy projections and optimum rates. Today's disrupted travel patterns throw our forecasting, which relies on analysis of historical travel activity patterns, into disarray. In an environment not unlike a new hotel (where no occupancy history exists), every property is now working in a new marketplace, struggling to understand market sector demand and to detect new patterns on which to base reformulated inventory and rate controls.

Channel Management

Airlines led the way in identifying the overhead costs associated with each distribution channel. We in the hotel industry have now also come to recognize that the cost of selling a room through the CRO is different from that at our front desk or through a Web site. Where previously we had sought identical rates and availability at all distribution points, the industry's thinking is changing. More and more the goal is to maximize sales through the lowest cost channels, accepting only the number of bookings needed to achieve a sold-out house through higher cost channels.

While sellouts are not as common these days as in years past, this thinking will transcend our short term demand weakness and will reshape (and complicate) our entire inventory allocation philosophy.

Web-only Rates

Recognition of the Internet as, in some cases, the lowest cost distribution channel has resulted in creation of Web-only rates. An idea with intriguing merit, it also raises the questions of the number of rooms to offer at these rates, with what booking restrictions, and on which Web sites. Further, should these rates be bookable when requested at the CRO or the hotel's reservation office is another thorny issue receiving much discussion. While still debated, I am encountering a growing number of hoteliers who are answering, of course.

Distressed Inventory Specialty Sites

A niche category of Web sites offer last-minute travelers the opportunity to secure accommodations at lower rates and offer hoteliers the opportunity to sell unsold distressed inventory. Exemplified by Cheaptickets.com and Lastminutetravel.com, these sites expand our distribution choices while simultaneously amplifying the issue of rate integrity – What rate should I offer? Am I undermining potential last-minute sales at a higher rate? Am I weakening brand and property loyalty by encouraging the use of discount sites? Is use of a site on which my name is listed, as opposed to an opaque site, such as Priceline.com or Hotwire.com, on which my identity is initially concealed, different in its short and long term implications for my property?

Consolidators

Until recently, HRN has played a relatively minor role in hotel distribution. The occupancy challenges of 2001 raised this company's profile as it suddenly gained new prominence and respect as a low-revenue but consistently producing distribution outlet. The strong economics of the so-called merchant model, where inventory is secured and resold at a mark up has predictably generated competition for HRN, notably HDS and Sabre exclusives. Characteristics of this distribution niche are:

- A minimum nightly room commitment
- Limited opt out nights annually
- A yearly or multi-year contract

- Substantial discounts from published rates
- A complimentary room allocation
- The option to re-sell without restraint

In many cases, in contradiction to our industry's move to and preference for electronic delivery of booking notifications, these sites typically fax bookings to hotels, as well as require manual maintenance of availability.

Consolidator sites offer an allure and a threat. They call on us to balance the demonstrated delivery of bookings with sometimes low revenue, a commitment to risk offering low rates through them over high demand (sometimes sold out) dates and the inconvenience of managing more mostly manual distribution outlets.

Another more nebulous but unavoidable issue is the impact of these sites on property and brand loyalty and of our overall rate integrity efforts. And now it is confession time for me. After 25 years of working in the hotel industry with extensive travel, for the first time I recently booked a business travel room on a pre-paid consolidator site. After checking various hotel company sites and finding nightly rates of $200-$400, I visited this consolidator site and found a 4 1/2 star property for $99.95. How could I not book it? How can this consolidator's Web site not be part of my shopping process in the future? How can it not impact, in subtle but powerful ways, my allegiance to my traditionally patronized chains?

Death Knell for Negotiated Rates?

Finally, our industry has banked on the negotiated and consortia rates we set annually for a consistent revenue flow. We felt secure with that business stream, bolstered as it was with volume commitments.

But now trade publications and conversations with hoteliers are full of stories of travel agents and corporate travel managers skipping past not only the COR corporate rates but also the negotiated rates to search for, find and book lower rates presented on both GDSs and Web sites.

The rules of the game may, and indeed will, change but planning and vigilance will keep your property on the winning side.

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The rate and inventory management world has become infinitely more complex. There are few answers, easy or otherwise, to offer.

1. Have a strategy. Think about the optimum allocation of your inventory to both protect space for your most important business sectors and to generate maximum revenue. Then consider every inventory allocation or rate change you and your staff make in light of that master strategy.

2. Watch for changes for emerging and evolving patterns. Be ready to respond rapidly to new needs and opportunities.

3. Protect inventory for proven high-revenue business sectors.

4. Don't discount – add value.

5. Be wary of long-term commitments that reduce flexibility once market conditions strengthen.

6. Be sure each distribution channel is continually maintained. Don't assume this is the case. Check and verify for yourself.