How Are You Pricing Your Hotel Rooms?

7 Common Mistakes You Can't Afford to Make

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The hotel industry is a street corner business and there's more competition than ever.

It's not just from the hotels next door and on the other side of the road anymore. Now there are online travel agencies like Priceline and Expedia and newer and even mobile booking sites selling rooms on your street corner and at your hotel.

Revenue may be climbing, but so are commissions and other marketing fees. Recent studies have shown customer acquisition costs are rising faster than revenue, meaning your profits are shrinking. The reason? Those online and mobile booking sites that may be helping fill your properties are also taking a huge cut of the action. And new intermediaries and other marketing costs are compounding that problem, leaving your piece of the profits even smaller.

If you're wondering where your profits have gone, it might be time to explore how you're pricing your hotel. Here are seven pricing mistakes that are costing your hotel big money.

1. Selling out too soon

This is one of the biggest and costliest mistakes a hotel can make. And it's easy to see why. Selling out and filling up your hotel is the ultimate goal, right? If every room is filled, you've done your job and are making money.

But are you making as much as you could be? Or should be? Probably not if your hotel is sold out months, weeks or even just days ahead. It may seem counterintuitive, but it's reality.

Consider: If a 100-room hotel sells out with every room sold for $100 on average, it has generated $10,000 in revenue. If instead you increased rates $10 for every 10 rooms you sold, and you still sell out, you'd generate an additional $4,500 with an average daily rate of $145 (instead of $100). If you increased rates $5 instead of $10, you'd generate an extra $2,250 with an average daily rate of $122.50. In both circumstances, even if you didn't sell those last 10 rooms, you'd come out with more revenue than if you sold all 100 rooms at $100.

> *It may be human nature and the easy choice to take the money and sell out early, but you are leaving money on the table.*

For dates with unconstrained demand—days where you know you're going to sell out or get close—the goal should be to incrementally raise rates as the date approaches to slow down bookings so you have rooms left all the way until that date. In an ideal situation, you want to sell your last room the night of that date to a customer desperate to stay there and one happy to pay a premium price to do so. You can ensure inventory remains by yielding up rates along the way to slow bookings to make sure a room is available for that guest who really wants to stay at your property on that specific date.

Think about the airline industry. If you want to get the best possible price for a flight, when do you book? You book as far in advance as you can. If you have to book the day before leaving, you fully expect to pay a premium and are happy to have that option. The same should be true in the hotel industry, and consumers should understand the further out they book the better deal they'll get. Many hotels are already doing this, the airlines have been for years and other industries are following suit. Consumers already understand and appreciate this concept.

If someone has to travel on a specific date and your hotel is the most convenient and/or the favored choice, you want to make sure you have a room available. The traveler may be coming in for an interview or important business meeting, to visit a sick relative or for a wedding. But if you sold your last room two weeks before, the desperate traveler is out of luck. By slowly raising rates as demand increases and supply decreases, you keep rooms available for those consumers who really want to stay at your property.

Here's another consideration: If total rooms revenue is the exact same for a hotel at 80% occupancy with a higher ADR than one completely filled with a lower ADR, the less-filled hotel is potentially more profitable because of reduced operational expenses (that would be 20 less rooms to clean in a 100-room property).

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2. Not changing your rates

Similar to the above example, another revenue-losing mistake is not changing the rates for the rooms at your hotel. If your rates are static—they never change throughout the year—you are not reaching your true profit potential. As outlined above, your rates should change to reflect supply and demand and ideally maintain a steady pace of bookings leading up to each and every day.

If your room rate is always $100, no matter the day, time of year or amount of bookings you've already got on the books, you're missing revenue opportunities. If your rate is $100 on a busy day—let's say there's a big sporting event in town and every hotel is sold out or soon to be— and you've only got 10 rooms left a month out, your rates should have been much higher up to that point, meaning you have underpriced your hotel and lost potential revenue. And those last 10 rooms could and should sell for much higher than $100, because you want to make sure you have rooms left up until the final day.

Most hotels have different pricing for different days and seasons depending on their location and demand patterns.

The opposite is true, too. If your rates are $100 on a day when you've only got 10 rooms booked out of your 100-room hotel a month out, you've overpriced your hotel and missed out on bookings and revenue you could have had by lowering the price and increasing occupancy.

Rates should be adjusted as much as possible from low to high leading up to each and every day based on the pace of bookings and projected demand. Most hotels have different pricing for different days and seasons depending on their location and demand patterns.

A hotel heavy on leisure business may have higher weekend rates and lower weekday rates, capitalizing on vacationing travelers. A hotel heavy on business travelers should be opposite, with higher rates during the week and lower rates on weekends when most business people are at home.

Hotels located in areas with seasonal business, like the beach or near ski slopes, may have different prices for the different seasons when those local attractions are more popular.

The more price points you can offer, the more business and revenue you can capture. If your rate is $100 and someone is willing to pay $120, you've lost $20. If your rate is $100 and no one is booking your hotel, you're missing out on potential bookings and revenue you could have with lower prices. Understanding the relationship between supply and demand and pricing accordingly is the key to maximizing revenue and profits at your property.

3. Pricing by "gut feel"

In both scenarios described above, a key part of understanding how to price your hotel comes down to having an idea of how much demand you have for each day. The more sophisticated you can be with your forecast, the more successful you can be with your pricing.

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If you're relying solely on "gut feel" with no analytics behind the hunch, you're bound to make mistakes and miss revenue opportunities. If you find yourself saying, "I remember this weekend last year and it was crazy busy, so I'm going to set the rates really high this year," you're risking an empty hotel and huge revenue losses. Especially if you continue to ignore a lack of bookings and hold your rates based on that gut feel. Perhaps there was an outside influence the year before that created the surge in demand—a concert or a convention that filled rooms—that isn't on the calendar this year.

Hunches, gut feels and guesstimates are never a better idea than using actual data and analysis. A forecast should start with historical data, pace of bookings and competitive information. If you're only relying on reports from the property management system, you're not getting a complete and accurate view of historical and future demand. The more datasets you can include, the more accurate and profitable you can be. Look for customer-centric data and local information for more insight into your market, from social media and review sites to weather forecasts and other local factors like air traffic that could drive or diminish demand.

Whenever your gut is telling you something, take a deep breath and pause, pull up the spreadsheet and data you have available and take a look at the information. Then adjust your pricing.

4. Reacting to sudden price changes from your competition

The competition is an important piece of the pricing puzzle, but it is only a piece. If your competitor across the street suddenly raises rates by 25% for a weekend six months out, it doesn't mean you should do the same. That owner and manager may be adjusting rates because they just scheduled a wedding with a huge block and the hotel is almost sold out already, or maybe they're downright crazy or basing it on their own gut feel.

Pay attention to the competition, but don't always follow their every move.

When a competitor makes a sudden and dramatic price move you can't explain based on your own information, it doesn't necessarily mean you should follow suit. If your competitor jumps the rate from $100 to $150 and you follow suit, without that huge wedding at your property and a block of 50 rooms already sold, you may end up pricing yourself out of the remaining business coming to town. You still have to price your rooms based on the quality of your product and the supply and demand specific to your property.

Now if every hotel in your market is making similar pricing changes, then it is time to take a second look at what's going on and potentially react. You may be missing something if every hotel makes the same move.

On the other side of the coin, you can't completely ignore the competition. You should always shop competitor rates, because they help paint the overall picture of your market.

If every hotel in your market drops rates by 25% and you don't notice, and demand is truly down for that date and your property isn't head and shoulders better than the competition, you will likely end up with an empty hotel and lost revenue.

Pay attention to the competition, but don't always follow their every move.

5. Selling rooms on a first-come, first-serve basis

If you don't have a true forecast or sense of how much demand you have for specific dates, you're probably taking hotel reservations as they come and leaving plenty of potential revenue on the table. Not all reservations and customers are created equal. Someone booking a night on Expedia is probably not as profitable for you as someone calling your hotel directly. A customer may be paying the same exact rate for a night as the guest next door, but if that guest is staying three additional nights, which one is more valuable?

Not all reservations and customers are created equal.

If you sell out in advance for a future date and another customer later wants to book a week-long stay during that time, you've just lost a week's worth of revenue because your hotel is no longer available to that shopper. Or if you close certain lower-cost channels like online travel agencies during higher demand periods, you may miss out on the guest who is only shopping that channel and doesn't see availability at your hotel.

This can very easily happen: Imagine a huge marathon on a Sunday morning several months out and all the hotels in the market expect to sell out the Saturday before. Most of the race runners have no reason to come into town on Friday or stay beyond the race, so there is not nearly the same demand for the Friday before or Sunday after and it's an otherwise slow time of year. If the hotel sells out that date ahead or turns off lower-cost channels to maximize revenue, a potential customer who may need to visit that entire weekend for something unrelated won't see any availability at your property if they're shopping those lower-cost channels or because you've completely sold out your property. Even if you've raised your rates for that one night and sold out, you're still missing out on the potential revenue of the two shoulder dates surrounding it when you really need bookings.

Or it can happen with room types just as easily: If you sell a king room to a customer who doesn't really care and isn't paying a premium for it, and then another customer comes along the next day and really wants to book that king room and is willing to pay for it, but you don't have one available, you've either lost that additional revenue or potentially a booking if the customer goes elsewhere.

Even more costly is what can happen when a hotel accepts a large group for a reduced rate during a time with strong demand. If you accept a large wedding block of 25 rooms reduced your standard 30% during a weekend that would otherwise be very busy, you've just lost the ability to sell those 30 rooms at higher prices. The group rate needs to be raised in that situation, and sometimes turning down group business can be the right choice.

Having a forecast and picture of future demand is critical to making the right pricing decisions and filling your hotel with the most profitable mix of customers.

6. Linking your different price points together

As illustrated earlier, the more frequently you can change your rates based on supply and demand, the more revenue you can capture. It's also imperative to have as many different rates and price points available, and have your hotel available for booking in any and all channels where consumers may be shopping. You should provide special loyalty rates and other discount pricing for seniors, AAA and other promotions, as well as have rooms available for sale on the various online and mobile bookings sites. You should also have different prices for different room types.

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Fluctuating rates across all these different channels can be a complicated web of numbers and rate codes. Many hotels group and link some of these together to make pricing changes because it's much easier to manage. This approach is called Best Available Rate (BAR) pricing and is very popular because of its simplicity, but with the advent of new technologies it has become antiquated and doesn't maximize profit potential.

In the BAR method, you set one main public rate and all others are based on that, usually by a predetermined percentage (AAA might be 10% less, OTA package rate 30% less). Someone booking a AAA rate may be willing to pay more, but if you aren't capable of offering it because your rates are linked and locked together, you'll never know and you'll also never capture that additional revenue.

The hotel is missing the opportunity to use differentiated pricing applicable to different behaviors exhibited by people booking from different channels. The more price points you can have available, the closer you can get to capturing the most possible revenue.

Another major flaw with this approach is when hotels close down channels because they no longer want to accept less-profitable business during periods of high demand. If you know you're going to sell out for a date a month out, you probably no longer want to keep open those discounted package rates on sites like Expedia and Priceline and accept rates discounted 30%. Many owners and managers turn off those channels, hoping to book those remaining rooms through the higher priced and more profitable direct channels.

But what if a customer needing a week or even a two-week stay looks to book that date a month in advance packaged with airfare on that online booking site, and your hotel shows no availability? The customer will find another hotel and make a 14-day reservation and you've lost business on those other 13 days.

By unlinking your different rates across various channels, you can offer customers more price points and never have to close channels down and miss potential revenue and bookings.

7. Shutting down pricing decisions at the end of the day

If at 6 p.m. you call it a day and hand over any pricing decisions to the overworked front desk staff, or worse yet, to no one at all, you're missing out on potential revenue opportunities. No one likes to think hotel management has to be a 24-hour job, but it really is, and that's especially true with pricing your property.

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This mistake can be especially detrimental, if not devastating, in markets with lots of weekend business. Have you ever come to work the next morning and realized 20 rooms were sold the night before for the upcoming next weekend? Great news, yes, but now you might be oversold, and worse yet, did you maximize revenue by yielding up rates?

For properties heavy on leisure business, it may not be out of the ordinary to get 10, 20 or 30 reservations on a Thursday or Friday evening for that weekend. Maybe there's a big event that comes up, like a sports team unexpectedly advancing in a tournament that brings plenty of out-of-town visitors. If you or someone managing the pricing at the property is not available and privy to that information, rooms will continue to be sold for well under what they should be selling for.

It's not fair to pass off this responsibility to the front-desk staff, who has so many other responsibilities like taking care of the guests already on property, unless they are properly trained and given the time and resources needed to monitor bookings and adjust pricing.

Managing rates at a hotel is too important a function to ignore for the 16 hours a day the manager isn't working. Rooms revenue is the primary—if not sole—source of profits at most hotels. Systems and people must be in place at all times to react to changing demand.

Conclusions

If your approach to pricing entails setting a handful of rates and sitting back and taking business as it comes, this should be a wakeup call. Recent studies have shown customer acquisition costs are rising faster than hotel revenue and online behemoths like Priceline and Expedia continue to grow larger than even the biggest hotel companies.

Selling out your hotel sounds like the ultimate goal, but if you do it too early, it can be one of the costliest mistakes you can make. If your hotel isn't capable of offering several different rates and price points that dynamically change based on data-driven forecasts, it's time to make a change. It's time to consider revenue management and all the tools and technologies available that can help increase your revenue, and more importantly, your profits.

Your bottom line depends on it.