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Making the most of 2010

Indian hoteliers should get smarter and strategise to adjust revenue optimisation tactics, and thus avoid making 2010 the year of missed opportunities, says **Klaus Kohlmayr**

As Indian hotels enter into the crucial stage of setting their strategies for 2010, one of the biggest dangers is the continuing uncertainty about the future state of the economy. While economists around the world are declaring an imminent end to the global recession, some of the biggest global chains – including those operating in India – have announced significant drops in RevPAR and ever increasing losses, indicating that they can't see anything in their numbers at the moment to suggest they've hit the bottom.

As we have experienced in the last few months, 'A busy hotel is a successful hotel' certainly has been the mantra in many properties in India. Local hotels have attempted to maintain occupancies at the cost of considerably lower rates - and often to the detriment of long-term revenue gains.

In this period of uncertainty, how are Indian hotels to set long-term strategies for 2010? Who can predict how next year's economy is going to shape up and when demand is going to return, if even the world's best economists are having difficulties predicting global economies for the next few months? As shell shocked executive teams in India sit down and finalise their strategies for the coming 12-18 months, which also coincides with the Commonwealth Games occurring in New Delhi, how will they avoid making 2010 the year of missed opportunities?

Savvy hotel owners, operators, and managers in India therefore should not only push back on doomsday scenarios but put in place two key strategies for a successful 2010. Firstly, to maximise the revenue opportunities throughout the entire customer journey, since, even with lower occupancy levels experienced during the current economic crisis, there are plenty of opportunities for hotels to increase revenues



The year should see successful strategies in place from savvy hoteliers

“GIVEN THE CURRENT OPERATING ENVIRONMENT, INDIAN HOTELS NEED TO BE SMARTER ABOUT HOW THEY PRICE THEMSELVES”

from existing customers. A 'race to the bottom' is a short-term pricing strategy with a potential long term impact. Once a mass discounting strategy is implemented, it is hard for any Indian hotel to return to normal rates when demand increases, given lost brand prestige and market position.

Given the current operating environment, Indian hotels need to be smarter about how they price themselves and what incentives they are using/giving away to attract business. Overuse of incentives to attract guests can actually reduce the revenue coming into a particular venue.

Secondly, maintaining flexibility to adjust revenue optimisation tactics as demand changes. With 81% of procurement departments of multinational companies believ-

ing that cost reductions in travel can be achieved mostly from hotels, the pressure to further reduce or at least maintain corporate rates for 2010 will only increase. A recent study by Carlson Wagonlit Travel (CWT) in the US market confirms this expectation, with negotiated rates to fall by around US\$ 10.00 from current levels.

Companies know that this is probably the last opportunity to get decent rate reductions. They will be keen to exploit this opportunity. As long as demand remains weak, hotel sales executives in India will continue to suffer from a lack of pricing and negotiation power, making any proposals for rate increases in most markets nearly impossible.

At the same time, with the future being more uncertain than ever, the appropriate negotiation strategies

must be set to enable the hotel to increase rates when eventually demand increases. Just as this year, corporate accounts returned to the negotiation table when demand declined, Indian hotels must insist that they should be able to do the same when and if demand increases.

For fixed rate contracts, this could take the form of offering time-restricted promotional rates, setting terms and conditions to at least review rates at either a certain time in the future, or through negotiating multiple rates (and room types) that come into effect under certain conditions. In any case, negotiating flat or reduced rates should always include specific volume commitments by the client.

While this might be difficult for many - especially larger - companies to accept, dynamic rate contracts should be offered as an alternative. While dynamic pricing in the past has received a negative reception by many companies, this year's round of multiple re-negotiations by corporate clients has resulted in an increased interest of dynamic pricing as a cost and time saving alternative within the industry, with more buyers already adopting de facto dynamic pricing arrangements for travel this year.

With the eyes firmly set at maximising the revenue opportunities throughout the entire customer journey, and sales strategies in place to maintaining flexibility to adjust revenue optimisation tactics as demand changes, the hotel industry in India should be able to avoid making 2010 the year of missed opportunities. ■



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