



## White Paper



# Do You See a Price War in Your Future? How to Win Without a Battle



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Revenue Management professionals are currently on a diet of news that cautions them to “maintain rate”, “don’t repeat the mistakes of 2001” and “don’t get involved in a price war.”

Thinking back to 2001 and 2002 – maybe you were working in hospitality but not in Revenue Management, or maybe you weren’t even involved in the hospitality industry. Even if you are a battle scarred survivor of 2001 and 2002 and have simply forgotten, or blocked the memories, read on...

Picture driving around a shopping center parking lot for 10 minutes and then suddenly spotting an empty space right next to the entrance. Triumphant, you speed to the space and angle your car - ready to park. It’s only then you see the clear sign that explains that this space is not for you.

*In most cases, price wars start because a hotel is trying to stem the tide of declining demand,*

or one hotel figures that they can buy market share using their current profit margins as a trade off. In both cases the option to drop price to stimulate demand appears as easy, quick and reversible.

Is a price drop the easy, quick and reversible solution it appears? Just as parking in the wrong space (for even a few minutes) can earn you a hefty penalty or even result in your car being towed, dropping prices to stimulate demand or buy market share comes with its own set of penalties.

Let's face it – Hotels, like many other businesses, operate in a competitive environment. Generally, when one hotel makes a bid to buy market share through price reductions, any revenue from market share that is gained is soon lost when a competitor retaliates by undercutting the reduced price and the hotel is forced to sell at even lower rate levels that endanger their profit margins.

Subsequently, when these hotels try to increase prices when demand picks up, they will experience resistance from customers. Competitors also may not follow your attempted price increase in the future, making it difficult for you to return your prices to previous levels for some time to come.

The biggest penalty of a price war is commoditization. If hotels in a market elect to compete solely on price, the only way the consumer or guest can differentiate between different hotel rooms is by their price. This is where the references to “the mistakes of 2001” make the most sense. In 2001, hotels were extremely price competitive and markets across the world were engaged in price wars. When you add in internet booking engines to this mix, suddenly the effects of “price wars” were readily available. Consumers who shopped and booked on the internet could not differentiate hotels by anything other than price. And even those market segments that were not as price sensitive were able to take advantages of lower rates than what they were accustomed paying – all the casualties of a price war.

So – how do you intelligently deal with competitors who are aggressively

moving prices down or are pricing below cost and act as if no price is too low to win more volume? Here are a few approaches for your consideration:

### *Don't make the price war worse.*

Do not feed the problem and make it worse. If you only use price as a weapon to compete to win customers, you increase customer price sensitivity and the intensity of the competition (you are escalating the war). You need to focus on defining products that target specific customers - pricing for differential value in a cost effective way.

When faced with a price war your corporate customers might also be pressuring you for better deals on their contracts. For example, they might demand more access to your inventory and request last room availability. Consider awarding this by room type rather than at the hotel level – it is not just the price on the contract, but also the terms of the contract that are important.

Ensure that the contract allows for re-evaluation of the rate and contract terms at regular intervals through the life of the contract based on usage, and that this usage is actively monitored.

### *Price discrimination, not price discounts.*

Learn to fence cautiously. You may consider creating new products to increase your business during periods of low demand. The advantage of offering

a range of fenced products is that the market segments that find such offerings meaningful will automatically gravitate to purchasing such new products. This produces previously untapped business – and there may even be other untapped business not identified as a specific market segment as well. This will enhance revenues and better capture the existing demand based on the occupancy levels and business patterns.

How could you define fenced products? You could look at it from the perspective of being able to restrict the business, e.g. by arrival day of week, minimum and maximum lengths of stay, or advance purchase restrictions.

You can also indicate if there are add-on services to the product such as valet service, free internet access or food and beverage credit and provide the start and end dates for the product availability. The availability date range will enable you to attract customers based on the add-on services for periods that you require their business. You can achieve this by analyzing the overall demand patterns to isolate gaps in existing demand.

Look to uncover complementary demand patterns that translate into opportunities for defining new products with the intention of increasing sales without cannibalizing the demand of existing products. The key here is that non-cannibalizing products have unique differentiators built in to allow fencing from existing products.

The advantage of introducing new products is that such products can have restrictions that target clearly identified

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market segments but remember – the focus is on achieving increased revenue, not cannibalization of your existing demand.

***Articulate value, not price.***

The only way to operate at prices higher than competitors is to deliver true value that competitors cannot match. If you do not continue to emphasize your value delivery, you will leave yourself vulnerable and make it possible for customers to price shop your hotel against your competition, even if your product actually delivers more value.

This is the time to ensure that your reservations team is fully aware of the value that the various products offer and are confident selling this over the phone. In addition, you need to ensure that your products are appropriately represented on the various internet booking channels highlighting the clear value differentiators.

***Plan for the recovery, too.***

Let's try not to repeat the mistakes from 2001 and 2002 - spray and pray marketing is not an effective strategy. You will need to invest the time and

effort to target specific customers where you have a better chance of winning against your competitor. Decide on new products that deliver additional value at a competitive advantage and ensure that your customers make value trade-offs in exchange for lower price.

During these uncertain times, price discrimination and not price-discounting needs to play an important role based on the market conditions.

Remember that price cuts in certain markets may get you some volume in the short run, but when you win that volume at your competitors' expense, it is likely that there will be price retaliation, and the resulting price war will quickly eliminate the benefit of a short-term share increase.

Don't forget - plan for the recovery and for any opportunistic bursts of demand that can occur well before a full recovery is underway. If you position yourself strategically, you can profit handsomely from periods of stronger demand as they begin to emerge. Optimizing revenues over even a very few days can pay off with higher revenues.



For more information on the benefits of Revenue Optimization visit IDEaS online at [www.ideas.com](http://www.ideas.com)

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