

Rate Optimization Service

Results Report

Lake Palace Hotel

16 June 2010



**Your Rates,
Optimized.**

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1 Overview

IDeaS Rate Rationalization Service increases revenue by refining the rates offered in your hotel rate spectrum based on the price sensitivity of demand (a measure of change in demand to a change in price). IDeaS optimizes the price points for each rate in the rate spectrum based on demand price sensitivity derived from historical demand and rates.

The optimized rates in the refined rate spectrum aim to maximize overall revenues, without making any other changes to existing revenue management practices. Outputs of Rate Rationalization include:

- Optimized rates for transient business segments at the room type level for each rate period for weekdays and weekends
- Overall revenue impact estimates by deploying the optimized rates.

Optimized rates are derived from analysis of historical data and reflect the price sensitivity of demand. Analysis of economic factors, competitive influences and market changes are outside of the scope of the Rate Optimization Service. For more information, please see the document “Rate Optimization Overview” provided separately.

1.1 Methodology

IDeaS applies the following methodology for the Rate Optimization Service:

1. Data Inputs:

- a. One year of historical data that includes Occupancy, Revenue, Capacity, Rates

2. Data Modeling:

- a. Capacity and price unconstraining of demand using proprietary methods
- b. Determining of price sensitivity of demand by Business Segment, Room Type, Rate Period and Weekday/Weekend
- c. Modeling of optimized rates based on price sensitivity of demand and capacity distribution

3. Results:

- a. Proposed Optimized Rates
- b. Estimated impact on ADR, Occupancy, Revenue

1.2 Summary of Inputs Received

Pricing analysis has been completed for Lake Palace Hotel by using historical data starting 4/1/2008 to 3/31/2009 for the following inputs:

- **Business Segments:**
 - Website
 - Walk-ins
- **Room Types:**
 - Standard
 - Deluxe
- **Rate Periods:**
 - Summer (4/1/2008 - 7/31/2008)
 - Winter (8/1/2008 - 3/31/2009)

1.3 Data Integrity Check

In some cases, there may be inadequate information to ensure a determination of data quality. In all cases, the best professional judgment for data quality estimation was used. Following are the observations from the data integrity check completed for Lake Palace Hotel:

- Room types with an available capacity of less than 10 rooms were excluded from the rate optimization analysis.

2 Recommendations

Demand-based-pricing includes the practice of offering a product at multiple rates based on expected utilization in order to maximize overall revenue. The following rates have been derived by estimating the price-volume relationships using IDEaS proprietary scientific models. Use the suggested price points for the business segments and room types to maximize revenues from existing demand.

The optimized rates are the exact numeric outputs of the Rate Optimization Service without rounding. The rates allow for fine tuning based on market conditions and business preferences. Optimized rates in this report are represented in local currency.

Some of the optimized rates may be very close to the current rates in use and are the raw outputs of the Rate Optimization Service. It may be necessary to use discretion to decide a threshold for changes to ensure optimized rates would result in a measurable gain.

The optimized rates should be implemented within **90 days** and are applicable for **1 year**. To ensure the rates are up to date, the analysis may be repeated periodically using most recent data. Periodic analysis will ensure any changes in price sensitivity patterns are correctly accounted for. Other factors beyond price sensitivity pattern, including economic and market factors, competitive strategies, etc. also need to be considered when setting future prices.

2.1 External Factors

The impacts of external factors such as economic influences and competitive pricing are accounted for as they are evidenced through historical demand, occupancy and revenue provided for analysis. However, no specific external data is utilized to account for these factors.

Special event data is not requested as part of the data input required for analysis. Statistical outliers are removed from the analysis to manage any potential challenges presented by special event data points. Special Events may require pricing considerations not provided through this analysis, and therefore rates for special events may be set above or below the recommended rates.

2.2 Optimized Rates

The optimized rates are designed such that revenue (the product of the rate and the demand expected at that rate) will be maximized. Lowering this rate further without any additional restrictions will result in a reduction of total revenue as the additional demand generated from lowering the rate will not be enough to compensate for the loss of revenue due to the rate decrease. It will also result in cannibalization of higher value demand. Following are the optimized rates for the Lake Palace Hotel:

Room Type - Standard
Business Segment - Website
Rate Period - Summer

Table 2.2.1: Optimized Rates for Website Business Segment for Summer and Room Type Standard

Current Rates			Optimized Rates		
	Weekday	Weekend		Weekday	Weekend
Rate1	320	260	Rate1	<i>Optimized</i>	<i>Optimized</i>
Rate2	330	270	Rate2	<i>Optimized</i>	<i>Optimized</i>
Rate3	345	285	Rate3	<i>Optimized</i>	<i>Optimized</i>
Rate4	360	300	Rate4	<i>Optimized</i>	<i>Optimized</i>

Room Type - Standard
Business Segment - Website
Rate Period - Winter

Table 2.2.2: Optimized Rates for Website Business Segment for Winter in Room Type Standard

Current Rates			Optimized Rates		
	Weekday	Weekend		Weekday	Weekend
Rate1	245	245	Rate1	<i>Optimized</i>	<i>Optimized</i>
Rate2	255	255	Rate2	<i>Optimized</i>	<i>Optimized</i>
Rate3	270	270	Rate3	<i>Optimized</i>	<i>Optimized</i>
Rate4	285	285	Rate4	<i>Optimized</i>	<i>Optimized</i>

Room Type - Standard
Business Segment - Walk-ins
Rate Period - Summer

Table 2.2.3: Optimized Rates for Walk-ins Business Segment for Summer in Room Type Standard

Current Rates		Optimized Rates	
All DOW		All DOW	
Rate1	240	Rate1	<i>Optimized</i>
Rate2	250	Rate2	<i>Optimized</i>
Rate3	265	Rate3	<i>Optimized</i>
Rate4	280	Rate4	<i>Optimized</i>

Room Type - Standard
Business Segment - Walk-ins
Rate Period - Winter

Table 2.2.5: Optimized Rates for Walk-ins Business Segment for Winter in Room Type Standard

Current Rates		Optimized Rates	
All DOW		All DOW	
Rate1	185	Rate1	<i>Optimized</i>
Rate2	195	Rate2	<i>Optimized</i>
Rate3	210	Rate3	<i>Optimized</i>
Rate4	225	Rate4	<i>Optimized</i>

Room Type - Deluxe
Business Segment -Website
Rate Period -Summer

Table 2.2.6: Optimized Rates for Website Business Segment for Summer in Room Type Deluxe

Current Rates			Optimized Rates		
	Weekday	Weekend		Weekday	Weekend
Rate1	385	385	Rate1	<i>Optimized</i>	<i>Optimized</i>
Rate2	370	370	Rate2	<i>Optimized</i>	<i>Optimized</i>
Rate3	355	355	Rate3	<i>Optimized</i>	<i>Optimized</i>
Rate4	345	345	Rate4	<i>Optimized</i>	<i>Optimized</i>

Room Type - Deluxe
Business Segment - Website
Rate Period - Winter

Table 2.2.7: Optimized Rates for Website Business Segment for Winter in Room Type Deluxe

Current Rates			Optimized Rates		
	Weekday	Weekend		Weekday	Weekend
Rate1	310	310	Rate1	<i>Optimized</i>	<i>Optimized</i>
Rate2	295	295	Rate2	<i>Optimized</i>	<i>Optimized</i>
Rate3	280	280	Rate3	<i>Optimized</i>	<i>Optimized</i>
Rate4	270	270	Rate4	<i>Optimized</i>	<i>Optimized</i>

Room Type - Deluxe
Business Segment - Walk-ins
Rate Period - Summer

Table 2.2.8: Optimized Rates for Walk-ins Business Segment for Summer in Room Type Deluxe

Current Rates		Optimized Rates	
All DOW		All DOW	
Rate1	325	Rate1	<i>Optimized</i>
Rate2	310	Rate2	<i>Optimized</i>
Rate3	295	Rate3	<i>Optimized</i>
Rate4	285	Rate4	<i>Optimized</i>

Room Type - Deluxe
Business Segment -Walk-ins
Rate Period - Winter

Table 2.2.9: Optimized Rates for Walk-ins Business Segment for Winter in Room Type Deluxe

Current Rates		Optimized Rates	
	All DOW		All DOW
Rate1	250	Rate1	<i>Optimized</i>
Rate2	235	Rate2	<i>Optimized</i>
Rate3	220	Rate3	<i>Optimized</i>
Rate4	210	Rate4	<i>Optimized</i>

2.3 Forecasted Impact of Optimized Rates

Forecasting, used in conjunction with IDEaS Rate Optimization Service was used to estimate the benefit of deploying the optimized rates for the business segments analyzed. Measuring the impact requires the separation of increases due to the optimized rates from other contributing factors, such as marketing or other external business processes. Actual benefits may be measured using simplified after-the-fact measurement.

Based on the historical revenues provided, the estimates for potential revenue gains are as follows:

- Overall Annual Benefit Estimate **3.8% (\$370,000)**
- Overall Impact on Occupancy **0.2%**
- Overall Impact on ADR **2.8%**

The expected benefits highlighted above are anticipated numbers only. Actual benefits must be measured after the recommendations have been implemented. Actual revenue gain will depend on proper implementation of the recommendations, appropriate proactive marketing and timely execution.

2.4 Relationship between Occupancy and ADR

Increases in occupancy will create revenue gain over a period only if the demand captured is sufficient to offset any drop in Average Daily Rate (ADR). Similarly, a drop in occupancy will result in a revenue gain only if the drop in occupancy is compensated by an increase in ADR.

Revenue increase in terms of ADR for any individual day depends on the demand and pricing decisions taken on that day. A reduction in rates may prompt a decrease in ADR, however the resulting increase in captured occupancy would result in an overall revenue increase.

3 Data Analysis & Visualization

Data analysis is used by IDeaS to review and assist in the understanding of the business and demand patterns at the hotel in preparation for the price sensitivity modeling. Outputs in this section are provided for information purposes, primarily for the benefit of the hotel or Corporate Revenue Management and Analyst teams. This section contains the overview of the Lake Palace Hotel historical data used in the Rate Optimization Service.

3.1 Hotel Level Data

3.1.1 Overall Rooms Sold, Revenue, Average Daily Rate (ADR)

Figure 3.1.1 demonstrates the total hotel's patterns for rooms sold, revenue and ADR during the analysis period.

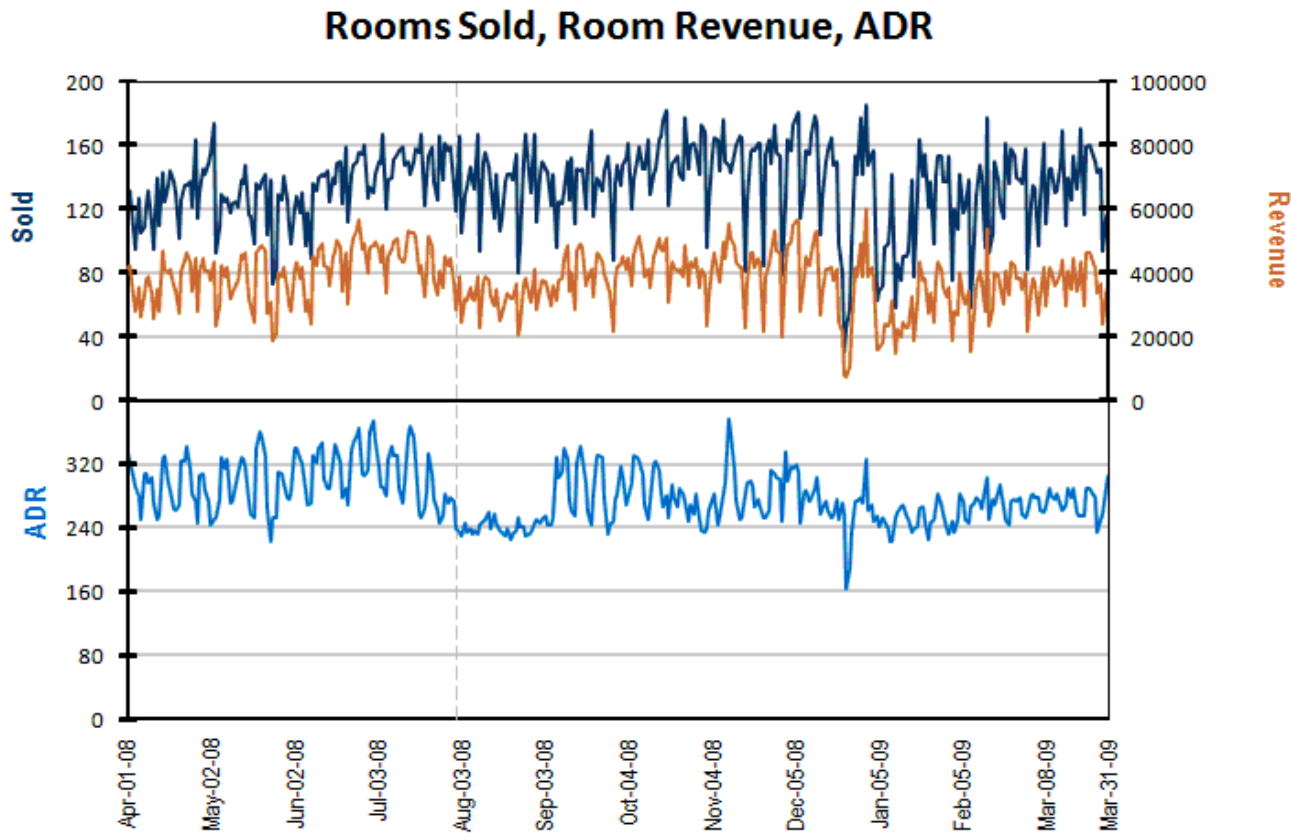


Figure 3.1.1: Hotel Rooms Sold, Revenue and ADR

(Average Daily Rooms Sold = 155, Average Daily Rate = 310, Average Daily Revenue = 39,000)

3.2 Business Segment Analysis by Room Type

3.2.1 Website and Standard - Rooms Sold, Revenue, Average Daily Rate (ADR)

Figure 3.2.1 shows the rooms sold, revenue and ADR patterns for Website and Standard during the analysis period.

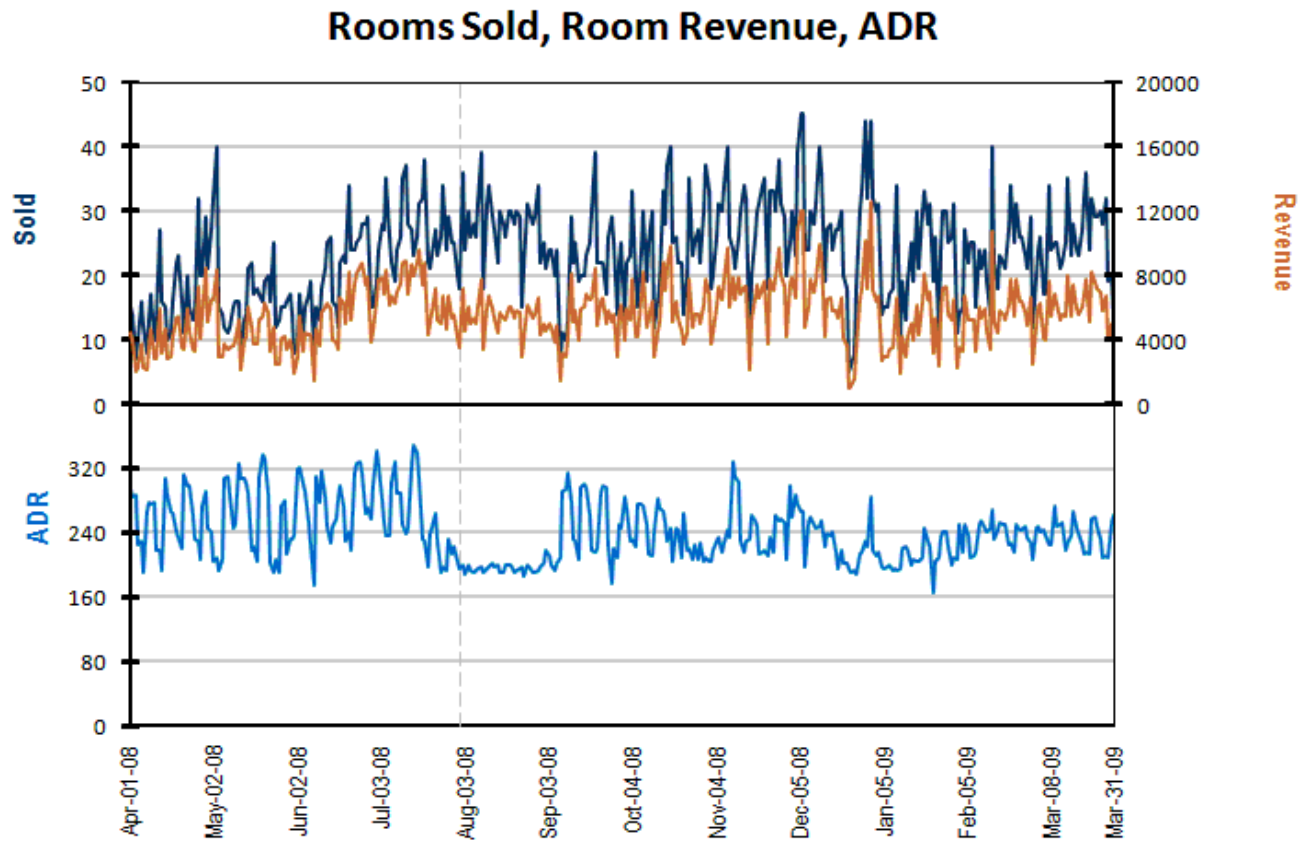


Figure 3.2.1: Website and Standard - Rooms Sold, Revenue and ADR

(Average Daily Rooms Sold = 27, Average Daily Rate = 248, Average Daily Revenue = 6,500)

3.2.2 Website and Deluxe - Rooms Sold, Revenue, Average Daily Rate (ADR)

Figure 3.2.2 shows the rooms sold, revenue and ADR patterns for Website and Deluxe during the analysis period.

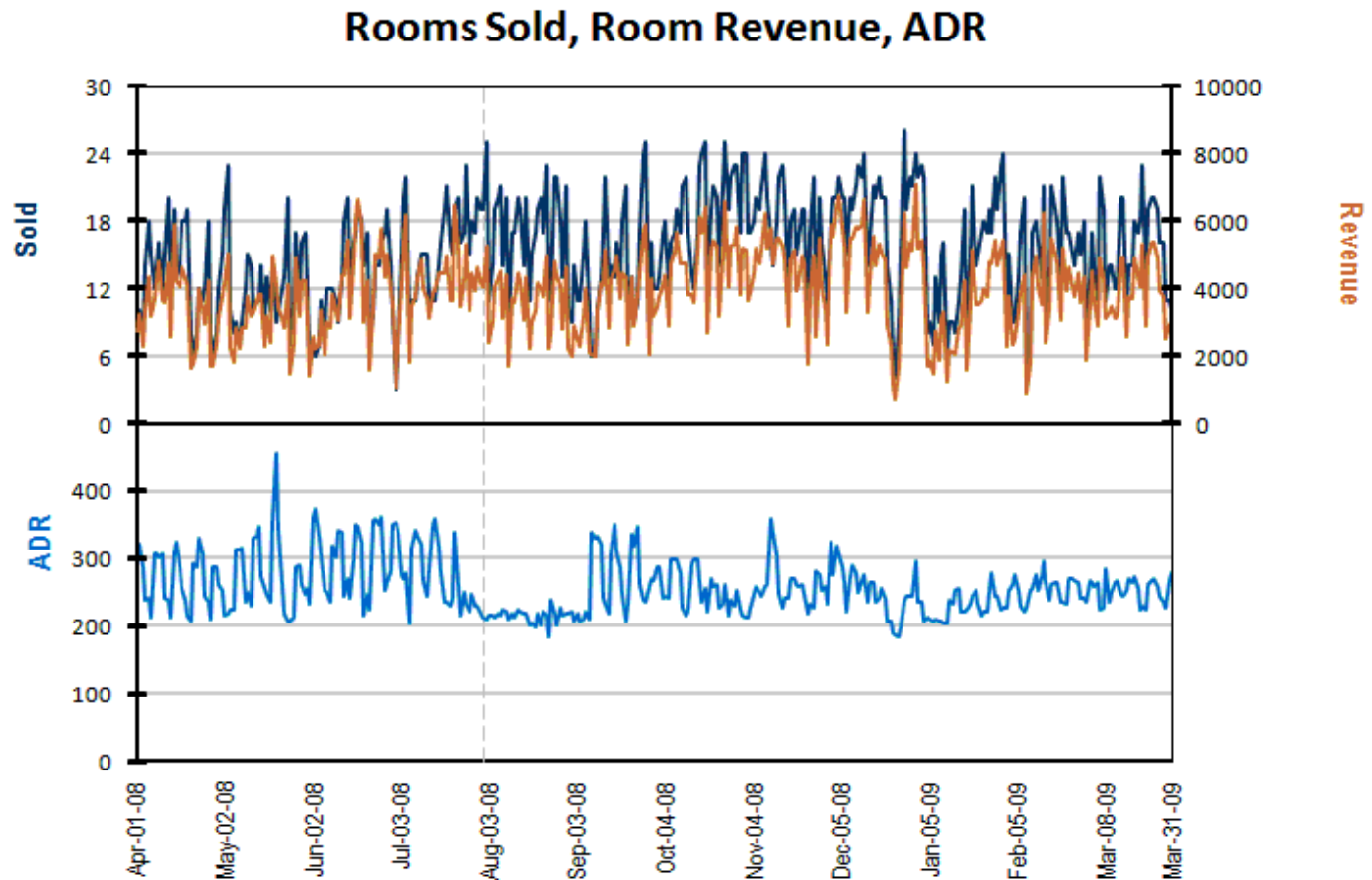


Figure 3.2.2: Website and Deluxe - Rooms Sold, Revenue and ADR

(Average Daily Rooms Sold = 17, Average Daily Rate = 280, Average Daily Revenue = 4,100)

3.2.3 Walk-ins and Standard - Rooms Sold, Revenue, Average Daily Rate (ADR)

Figure 3.2.3 shows the rooms sold, revenue and ADR patterns for Walk-ins and Standard during the analysis period.

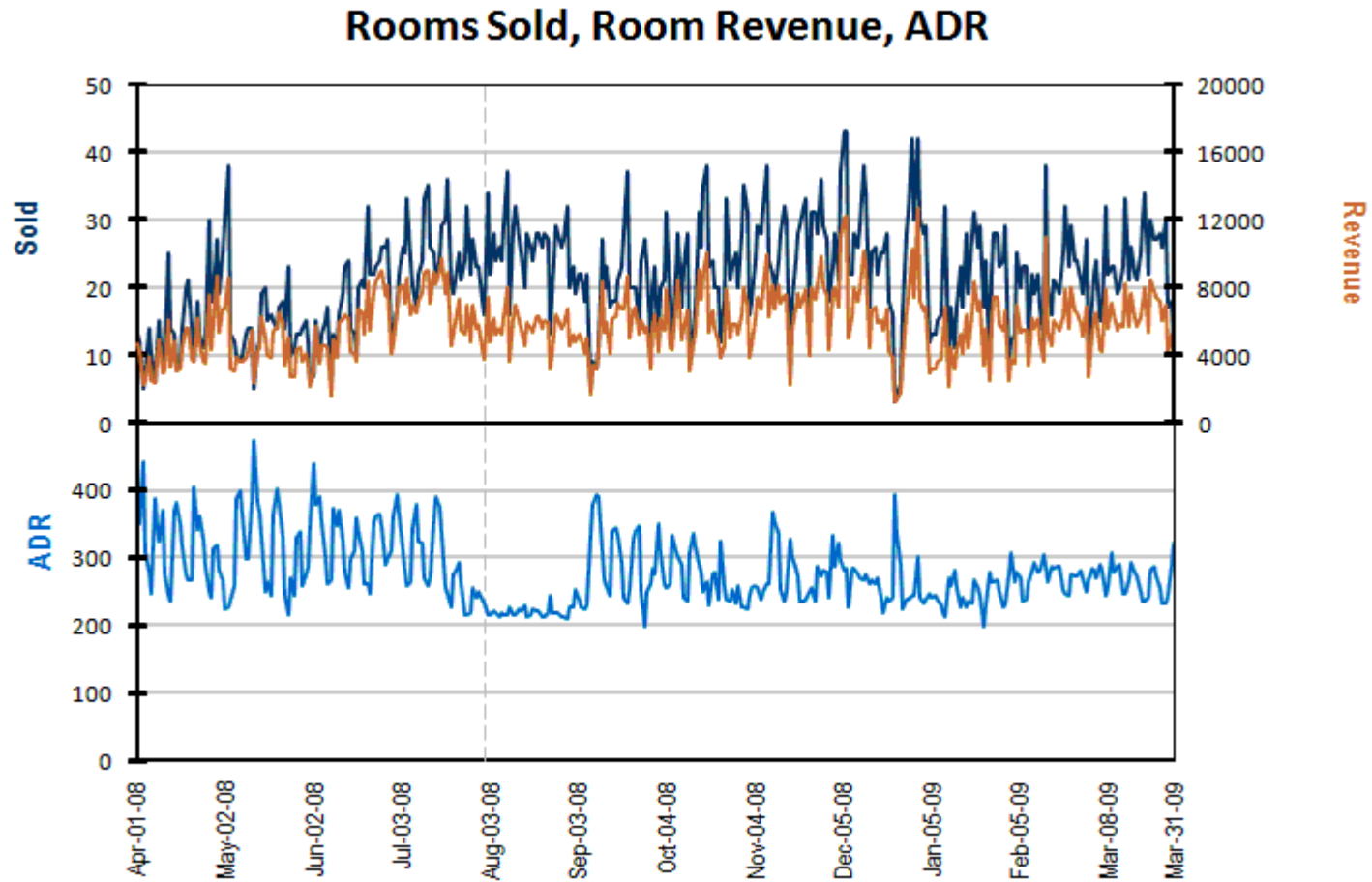


Figure 3.2.3: Walk-ins and Standard - Rooms Sold, Revenue and ADR

(Average Daily Rooms Sold = 28, Average Daily Rate = 310, Average Daily Revenue = 6,500)

3.2.4 Walk-ins and Deluxe - Rooms Sold, Revenue, Average Daily Rate (ADR)

Figure 3.2.4 shows the rooms sold, revenue and ADR patterns for Walk-ins and Deluxe during the analysis period.

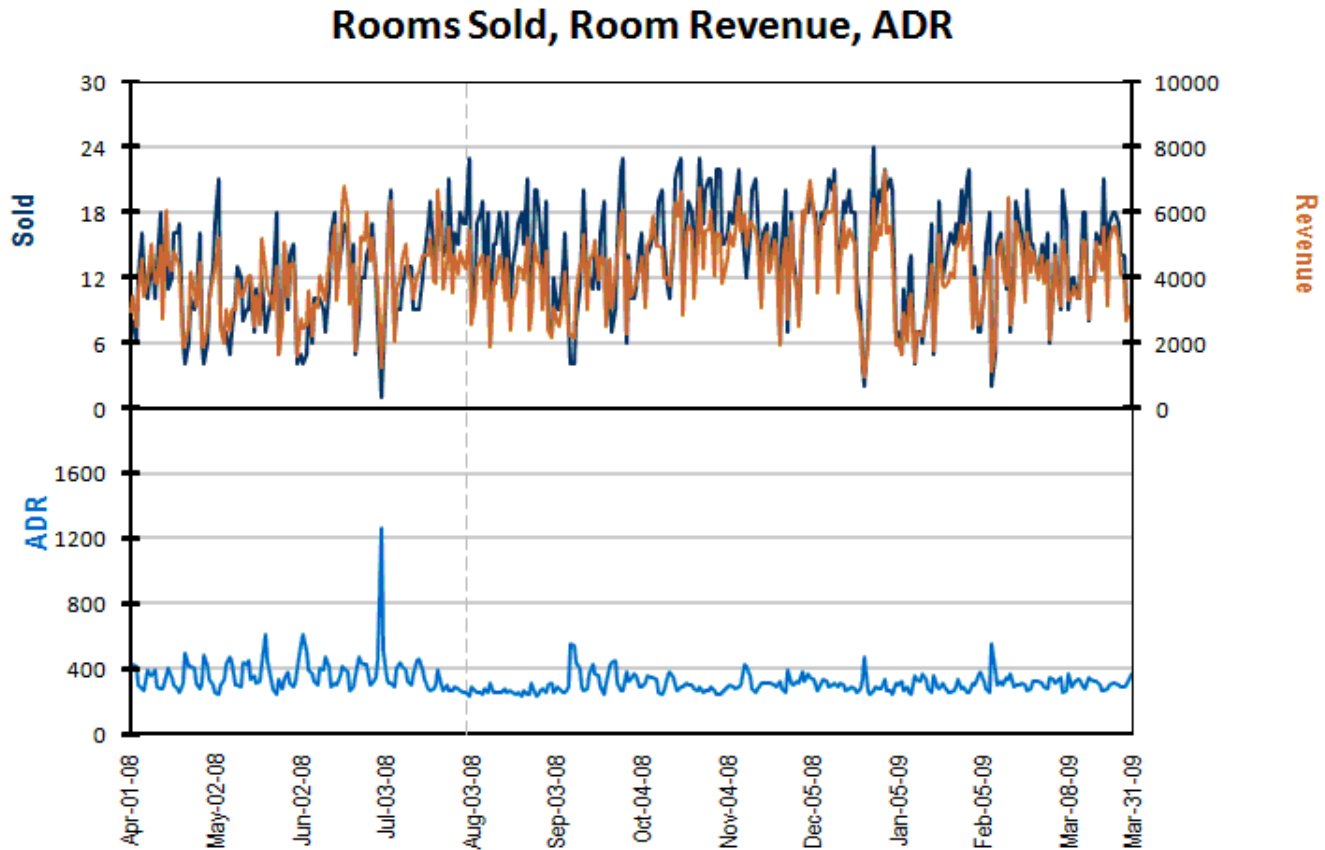


Figure 3.2.4: Walk-ins and Deluxe - Rooms Sold, Revenue and ADR

(Average Daily Rooms Sold = 16, Average Daily Rate = 380, Average Daily Revenue = 5000)

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