Successful Tactics for Surviving an Economic Downturn: Results from an International Study

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Successful Tactics for Surviving an Economic Downturn: Results from an International Study

Abstract
A survey of 980 hotels around the world, conducted from December 2009 through February 2010, found that discounting was the number-one tactic used to offset the effects of the Great Recession of 2008–2009. At the same time, most respondents who cut their prices agreed that discounting was not particularly successful in maintaining revenue levels. Discounting is one of four categories of tactics applied to offset the effects of the drop in corporate and leisure travel. The other three categories, in descending order, were marketing initiatives, obscuring room rates, and cutting costs. Hotels that sought to attract new market segments reported reasonably strong success. Those that used rate-obscuring tactics typically assembled value-added packages, offered a free night with purchase, or made heavier use of opaque distribution channels. About one-quarter of respondents reported cutting costs, usually by closing facilities, taking the opportunity for renovation, or reducing operating hours. Asked for their recommendations for the next recession, the respondents said that they would avoid discounting and focus instead on market initiatives. For 2010, in addition to marketing programs, the respondents said that they planned to use rate-obscuring approaches, with an emphasis on value-added packages.

Keywords
hotels, discounting, Great Recession, marketing programs, rate-obscuring, value added packages

Disciplines
Business | Hospitality Administration and Management

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Successful Tactics for Surviving an Economic Downturn:

Results from an International Study

by Sheryl E. Kimes

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A survey of 980 hotels around the world, conducted from December 2009 through February 2010, found that discounting was the number-one tactic used to offset the effects of the Great Recession of 2008–2009. At the same time, most respondents who cut their prices agreed that discounting was not particularly successful in maintaining revenue levels. Discounting is one four categories of tactics applied to offset the effects of the drop in corporate and leisure travel. The other three categories, in descending order, were marketing initiatives, obscuring room rates, and cutting costs. Hotels that sought to attract new market segments reported reasonably strong success. Those that used rate-obscurring tactics typically assembled value-added packages, offered a free night with purchase, or made heavier use of opaque distribution channels. About one-quarter of respondents reported cutting costs, usually by closing facilities, taking the opportunity for renovation, or reducing operating hours. Asked for their recommendations for the next recession, the respondents said that they would avoid discounting and focus instead on market initiatives. For 2010, in addition to marketing programs, the respondents said that they planned to use rate-obscurring approaches, with an emphasis on value-added packages.
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Drops in occupancies, average daily rate, and revenue per available room were widespread in the depths of the Great Recession of 2008–2009. The effects of recession have been discouraging and stubborn in many places, and the trade press has been filled with articles that discuss the downturn and propose numerous possible tactics for recovering from it.¹ Not surprisingly, hotel owners and hotel operators have disagreed on how best to manage during a recession, as owners try to maintain sufficient cash flow to cover their costs while operators attempt to maintain service levels and long-term brand equity.²

opaque distribution channels, and offering discounted rates to selected market segments. The message here is not that hotels shouldn’t discount—it’s that they should do so in an intelligent and strategic way.

The intent of the study described here was to determine what tactics hotels used during the economic downturn, and to evaluate the performance of these tactics. In addition, I wanted to solicit advice on how to approach future economic downturns so that I could develop a ready source for hotels to use for the next recession. I will first discuss the survey methodology and then summarize the survey results. I then used the findings and the results of previous research to develop specific advice on how to approach the next economic downturn.

The Survey Methodology. I conducted an online survey of hotel revenue management (RM) professionals from December 2009 through February 2010. The intent of the survey was to determine what hotels did to survive the recent economic downturn, to assess the effectiveness of their tactics, and to develop advice for the future. The link for the survey was sent to over 3,000 RM professionals. The list of RM professionals came from two sources. Eye for Travel, a large RM and distribution channel conference organizer, provided me with a list of e-mail contacts along with a list of another 1,000 RM professionals who had downloaded my 2009 Cornell Hospitality Report “Hotel Revenue Management in an Economic Downturn.” A total of 980 completed responses were received by March 1, 2010.

Demographic profile. Slightly over 90 percent of the respondents were fairly evenly split among the Americas (31.5%), Asia-Pacific (29.7%), and Europe (29.4%). The remaining 9.4% worked in the Mideast and Africa. The majority (approximately 59%) worked at a property, while

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5 Ibid.
about 29 percent worked at the corporate level and about 12 percent in regional offices.

Nearly half of the respondents had six or more years of experience in RM (9 percent had over 15 years of experience). Approximately 20 percent had less than two years of experience and 31 percent had three to five years of experience. The respondents were well educated. Slightly over half had a college degree, and another 31 percent held a postgraduate degree.

I also asked about the star level of the hotel (or chain) because I was interested in seeing whether RM tactics varied by hotel market scale. About 42 percent worked in five-star hotels or chains, 35 percent in four-star hotels or chains, and about 21 percent in three-star hotels or chains. Less than 2 percent worked in one- or two-star hotels.

Survey Structure
The survey was divided into four parts. The first part asked about the relative importance of occupancy and rate for both the hotel and for its competitors and also asked the respondent to indicate how ADR, occupancy, and RevPAR had changed over the previous year. The second part of the survey presented 13 different frequently used tactics that many hotels deployed during 2009. Respondents were asked whether they had used the tactic and if so, how well it had worked and whether they would use it again. In the third part of the survey, respondents were asked open-ended questions about their plans for growing occupancy and rate over the coming year, to reflect on things that they wish they had done differently, and to offer advice for the future. The final part of the survey included demographic questions and questions about the hotel or hotel chain.

Results
Hotel performance. Just under 70 percent of respondents indicated that their focus had been more on maintaining occupancy than on room rate. There was no significant difference by region of the world or star level. Interestingly, respondents felt that their competition was even more focused on maintaining occupancy (87.2%). Again, there were no significant differences by region of the world or star level.

Respondents were asked to indicate how their ADR, occupancy, and RevPAR had changed over the previous year. On average ADR had dropped by 12.6 percent, occupancy by 7.4 percent, and RevPAR by 14.0 percent.

Performance varied by part of the world (Exhibit 1). Respondents from Africa-Mideast (-16.6%) and Asia-Pacific (-14.1%) reported the largest drops in ADR, while Europeans reported a 10.9-percent decline. Occupancy decreased the most in Africa-Mideast (11.3%) and the least in Europe (4.9%). RevPAR showed the largest declines in Africa-Mideast (19.4%) and Asia-Pacific (14.7%).
Strategies and Tactics Used

Respondents reported that on average they used five different tactics of the thirteen competitive tactics listed in the survey. Although it’s not possible to use a fractional tactic, the averages show that respondents from the Americas used significantly more tactics (5.75) than respondents from other parts of the world (Africa-Mideast, 4.54; Asia-Pacific, 5.19; Europe, 4.95). The number of tactics used did not vary by hotel star level.

Respondents felt that the tactics that they used had been relatively effective (5.09 on a 7-point scale). While perceived effectiveness did not vary by hotel star level, it did vary by world region. Respondents from Asia-Pacific (5.30 out of 7) and Europe (5.18) felt that the tactics they had used were significantly more effective than did respondents from Africa-Mideast (4.89) and the Americas (4.86).

Implemented by nearly three-fourths of respondents, the most popular tactics were value-added packages (73%) and lower rates (72%), followed by new market segments (52%) and a free extra night (50%). The least popular tactics were air-car packages (13%), prepaid food and beverage (16%), and two-for-one packages (22%).

The tactics were divided into four basic categories: cost cutting, discounts, marketing, and obscuring the room rate (Exhibit 2).

Respondents were asked which tactics they had used during 2009 and to indicate the performance of those tactics. They were also asked if they would use that particular tactic during the next economic downturn and if they had plans to repeat the tactic during 2010 (Exhibit 3, next page).

Use. Discounting was the most common strategy (72% of all respondents), followed by marketing measures (41%), obscuring the room rate (38%), and cost cutting (27%). Usage varied by world region and by hotel star level.

Respondents from Europe (29%) and the Americas (36%) were significantly more likely to use cost-cutting measures, and respondents from the Americas (42%) and Asia-Pacific (40%) were more likely to have used rate-obscuring tactics. There were no statistically significant regional differences for discounting or marketing measures.

Respondents from three-star hotels (78%) and four-star hotels (73%) were significantly more likely to use discounting and cost-cutting measures (32% for three-star and 31% for four-star properties), while respondents from five-star hotels were more likely to use marketing measures (45%).

Performance. Respondents were asked to evaluate the performance of each tactic on a 1 to 7 scale, where 7 = very effective. Marketing tactics were considered to be the most effective strategy (4.99). Responses did not vary by world region or hotel star level.
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Cost-cutting tactics. Just over one-quarter (27%) of respondents had instituted cost-cutting measures during the previous year. Two different cost-cutting tactics were evaluated: closing facilities or scheduling renovations and reducing operating hours.

Use. About a third (31%) of respondents had reduced operating hours during the previous year, while 23 percent indicated that they had closed facilities for renovation during the previous year. Respondents from the Americas (46%) and Europe (33%) and respondents from three-star (40%) and four-star hotels (39%) were significantly more likely to have reduced operating hours. The percentage of respondents who had closed facilities for renovation did not vary by world region or by hotel star level.

Effectiveness. Respondents felt that closing facilities for renovation was more effective (4.92) than reducing operating hours (4.59). This did not significantly vary by world region or hotel star level.

Future use. Respondents were about equally likely to reduce operating hours (4.79) and close facilities for renovation (4.78) during the next recession. Respondents from the Americas were more likely to reduce operating hours in the future.

Specific Tactics Used
Next, I’ll review the specific tactics used for three of the generic strategies with multiple tactics (i.e., cost cutting, marketing, and rate-obscuring), along with their perceived performance, whether respondents would use the specific tactic in the next recession, and whether they plan on using the tactic in 2010.

Cost-cutting tactics. Just over one-quarter (27%) of respondents had instituted cost-cutting measures during the previous year. Two different cost-cutting tactics were evaluated: closing facilities or scheduling renovations and reducing operating hours.

Use in 2010. Finally, respondents were asked whether they planned on using a particular tactic during 2010. Marketing tactics were by far the most likely to be used (94%), followed by rate-obscuring (84%) tactics. Cost cutting (68%) and discounting (66%) tactics were less likely to be used. Respondents from the Americas were more likely to continue to use cost-cutting approaches in the future.

Future use. Respondents were also asked to indicate whether they would use the tactic in the next economic downturn (1–7 scale, 7 = high likely). Marketing tactics were the most likely to be used (5.65), followed by rate-obscuring approaches (5.02) and cost-cutting approaches (4.77). Discounting was the least likely tactic to be repeated (4.54). Respondents from the Americas were more likely to recommend cost-cutting approaches in the future.
Exhibit 4
Marketing tactics

Use in 2010. The majority (73%) of respondents said they would continue to offer reduced operating hours while 63 percent said that they would continue to close facilities for renovation in 2010. Respondents from the Americas and Europe and respondents from three- and four-star hotels were significantly more likely to reduce operating hours, while respondents from Asia-Pacific were significantly less likely to close facilities for renovation.

Marketing tactics. Forty-one percent of respondents had used marketing tactics during the previous year (Exhibit 4). Marketing tactics were considered to be the most effective (4.99), and respondents were significantly more likely to use marketing approaches during the next economic downturn (5.65) than other approaches. Nearly all respondents (94%) who had used marketing approaches during 2009 said that they would continue to do so in 2010. Three different marketing tactics were evaluated: developing new market segments, developing additional revenue streams, and using pay-per-click advertising.

Use. Developing new market segments was the most frequent marketing tactic used (52%), followed by pay-per-click advertising (38%) and development of other revenue sources (34%).

Use of the tactics varied significantly by world region and hotel star level. The development of new market segments was less commonly used in the Americas (43%). Respondents from the Americas (54%) and Europe (40%) were more likely to have used pay-per-click advertising and less likely to have focused on developing other revenue streams (28% for the Americas, and 33% for Europe) than respondents from Africa-Mideast and Asia-Pacific.

Five-star hotels were more likely to have tried to develop additional market segments (63%) and to develop other revenue sources (42%), but less likely to have used pay-per-click advertising (30%) than respondents from three- and four-star hotels.

Performance. The development of new market segments (5.15), pay-per-click advertising (4.92), and the development of other revenue streams (4.84) were all considered to be effective marketing strategies. There were no significant differences by world region, but respondents from five-star hotels were more likely to consider the development of other revenue sources to be more effective (5.01).

Future use. The overwhelming majority of respondents said that they would use marketing tactics during the next economic downturn (development of new market segments, 5.84; pay-per-click advertising, 5.52; and development of
other revenue sources, 5.52). This did not vary significantly by world region or hotel star level.

**Use in 2010.** Nearly all (90–95%) of the respondents who had used marketing tactics during in 2009 said that they would continue to do so in 2010. This did not vary significantly by world region or hotel star level.

**Rate-obscuring tactics.** More than a third (38%) of respondents had used at least one of seven different rate-obscuring tactics during the previous year (Exhibit 5). Rate-obscuring tactics were considered to perform fairly well (4.72) and were likely to be used in the future (5.01). A large majority (81%) of respondents who had used this strategy in 2009 planned on using it again in 2010. These percentages did not vary by world region or hotel star level.

**Use.** The most commonly used tactic was to offer value-added packages (73%) followed by an extra night free (50%). Other popular tactics included opaque distribution channels (48%) and free breakfast (47%).

There were some minor regional and star-level differences. Respondents from the Americas and Asia-Pacific were more likely to have offered value-added packages and free breakfast than were respondents from other parts of the world. Also, respondents from the Americas were significantly more likely to have used opaque distribution channels (61%) and offered prepaid food and beverage (22%) than were respondents from other parts of the world. In addition, respondents from three-star (62%) and four-star hotels (49%) were significantly more likely to have used opaque distribution channels than were respondents from five-star hotels (39%).

**Performance.** Using opaque distribution channels (4.89), offering value-added packages (4.88), and offering free breakfast (4.85) were considered to be the most effective rate-obscuring tactics, while offering air–car packages (4.02) was considered to be the least effective tactic. There were only minor variations by world region and by hotel star level. Respondents from the Americas believed that opaque distribution channels were more effective than did respondents from other parts of the world, and respondents from five-star hotels felt that offering an extra night for free was more effective than did respondents from three- and four-star hotels.

**Future use.** Respondents were most likely to offer value-added packages (5.31), use opaque distribution channels (5.30), and offer free breakfast (5.20) during the next...
economic downturn. There were no differences by world region or hotel star level.

Use in 2010. The most popular tactics for 2010 were using opaque distribution channels (93%), offering value-added packages (91%), and offering free breakfast (89%). The least popular tactic was to offer two nights for the price of one (65%). There were no significant differences by world region or hotel star level.

Advice for the Future

One of the intents of this research was to help hotels develop a plan for how to approach the next economic downturn. While we would all like to think that this won't happen again, we know that another recession will eventually occur, and it is best to be prepared so that it can be approached in an intelligent and strategic fashion.

Several lessons emerge from the survey results and from the insightful comments that respondents made. The foremost piece of advice was to be prepared and to have a plan (some people even suggested a standard operating procedure manual) on how to respond to a recession. As one respondent stated, “It is never too early to be prepared. You should always have a contingency plan that you can implement within minutes.”

When you develop your plan, focus on the long term and consider the impact that your plan will have on customer satisfaction, employee satisfaction, and the long-term image of your hotel or chain. If you lose sight of the long term, you may end up compromising customer and employee satisfaction and hurting long-term profitability and viability. As one respondent said, “Maintain the brand image, be insistent on the pricing strategy. Focus on your long-term goal and be patient.”

Several other lessons emerge from the research:

(1) Don’t panic! Respondents talked about the need to stay calm and look for solutions. One respondent succinctly said: “Do not panic. Do not compare downturn periods with previous good periods. Think in terms of long-term decisions.”

(2) Be wary of broad-scale discounting. Of the four basic strategies for approaching an economic downturn, respondents were least likely to recommend discounting for the future. Time and again, respondents discussed how it would take years to recover from the discounting that they engaged in during the previous year. As one respondent advised: “Don’t drop rate—or let me state it this way: Don’t drop your public or retail rate. Use the retail rate as the benchmark for discount rate programs and fence these discounts appropriately.” Another made a similar comment: “My advice would to be careful about playing the rate reduction game. In 2007 and 2008 we were aggressive with increasing our corporate pricing and in the space of a few months, all that and more has been undone. We have literally undone 3 years of solid work in the space of the last 8 months. It will take us another 3 to 4 years at least to get that back.” If you must discount, do so in an intelligent way and consider creative packaging and using opaque distribution channels.

(3) Don’t cut your marketing budget. Respondents discussed the need to keep current guests and to develop packages and promotions that both attracted current and potential guests. If you cut your marketing budget, this won’t be possible. As one respondent suggested, “When the bad times hit again, save the marketing dollars on new initiatives (e.g., acquire new customers or promoting new hotels), but focus the spending on the existing customer base.”

(4) Consider marketing approaches. Respondents felt that the development of smaller, less price-sensitive market segments had been highly successful during the Great Recession. As one respondent suggested, “Explore new market segments and new ways of promotions. Try not to drop rates for all market segments; some of them are not so price sensitive. We have to identify these guests and work hard to attract them to our property.” Another popular and effective tactic was to develop other new revenue streams within the hotel (such as spa or food and beverage). One respondent summarized this nicely: “We just have to diversify our business rather than rely too heavily on a particular business and geographic segment. At the same time, more emphasis has to be put on how to optimize revenue conversion from all revenue streams be it major or minor, which will ultimately help to improve bottom line.”

Other tactics that were highly rated were pay-per-click advertising and other web-based marketing approaches. For example, one respondent said that the hotel planned to re-bound by: “Capitalizing on e-channels. We have re-launched our website, re-structured our URLs for better ranking, and organic search in the search engines.”

(5) Consider rate-obscuring practices. Remember that there is a difference between your “public” rate and your “private” rate. Focus in on how you can develop packages
Lessons from this Study

(1) Don’t panic. Instead be strategic.

(2) Beware of broadscale discounting.

(3) Maintain marketing efforts.

(4) Focus on market-based initiatives.

(5) Consider rate-obluring practicies.

(6) Maintain service levels.

and bundles that add value to the consumer without costing the hotel too much. Consider the following suggestion: “My advice is maintain rate, continue to look for new markets (e.g., religious retreats, romantic weekend packages), develop specials which focus on value-added extras like spa treatments, be creative in your F&B promotions, and watch for pro- longed gaps in occupancy which might be filled with internet promotions or opaque distribution channels which won’t later effect your rate strategy so dramatically.” Think about what customers want and try to deliver it without “giving away the house.” Also, focus in on packages that are hard to imitate— anyone can offer an extra night for free, so try to develop packages that are unique to your hotel.

Respondents were generally pleased with the performance of opaque distribution channels. As one respondent mentioned: “Don’t drop rate drastically, and use opaque distribution systems when you are forced to do so.” Conversely, some respondents were a bit concerned about the possible effect on brand image. As one respondent from a five-star hotel stated: “Opaque channel customers are not desirable. They don’t want to pay the premium an upper-upscale or luxury charges on services (e.g., parking, F&B), but expect the moon in return. In the long run, it doesn’t cover your costs and often can drive down your GSI.”

(6) Maintain service levels. If you need to cut costs, do so in areas of the hotel that have the least impact on customer service and the hotel’s image. As one respondent said, “Don’t reduce standards but do add value; guests are very sensitive to changes. Bad times are not forever, and it could take a longer time to recover if you cut corners to save a buck!” If customer satisfaction and service quality are negatively affected, it will be more difficult to both maintain your current guests and attract new guests after the recession is over. Consider the following suggestion: “Do not make cost cuts on quality service. It is okay to bring prices down, but set yourself a limit which will not handicap you when you want to bring the ADR up again the following year.”

Conclusion

The recent economic downturn has created pressure to maintain market share, and many hotels have reduced rate in an attempt to attract additional customers.

This 2010 survey on the effectiveness of tactics that revenue management professionals used to survive the Great Recession showed that while discounting was the most frequent strategy used, marketing approaches were considered to be the most effective.

The goal of RM is still the same, to maximize revenue. All that has changed is that there is less demand than before. Revenue managers should concentrate on the fundamentals and remember that RM is about selling the right room, at the right price.
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