MODERN TRENDS IN RATE AND YIELD MANAGEMENT POLICIES
WITH AN EMPHASIS ON WEB BOOKINGS

SUVEREMENI TRENDI RATE I YIELD MANAGEMENT HOTELA
S NAGLASKOM NA WEB BOOKING

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Abstract
Today's market and technology development in the form of hotel software solutions as well as the websites' involvement in selling capacities of individual hotels or hotel chains fully determine the business policy of rate categories with regard to season, occupancy rate, days of week, length of stay, the selling actions etc. One of the biggest challenges today is setting up a competitive rates sold on the third-party websites / distribution channels as booking.com, hrs.com, expedia.com, etc. Why? Because any change in rate category which is mainly affected by the rooms availability and season, the hotel / hotel chain must send to all third-party websites/ distribution channels at the same time or it would not violate "rate parity" partnership that each of these sites request, while rates can change several times a day. Rate parity exists when the same rate structure for a hotel exists across all its distribution channels. This means that everyone must have the lowest rates at the same time. Technology development has greatly contributed to the appearance of systems such as "Rate Tiger", "Channel Manager", etc., which greatly simplifies the work of the hotel in the way that rates are integrated into one system instead of at each site separately, and that system than sends rates on websites which hotel has a contract with. One of the most elegant solutions currently is myfidelio.net paired with Opera hotel software because it offers a solution where rates change by system itself and than sends them to "My fidelio.net" and it saves a lot of time, but also requires the implementation of opera as a hotel software solution, and thus more funding. Nevertheless, a huge job remains to every hotel to stay present and competitive on the market because the web booking increases rapidly and is more present on the Croatian market as well. It is difficult to adjust to today's world standards, because of outdated technology, which is due to the current economic situation more difficult to finance.

1. INTRODUCTION

In order to create the conditions that will meet the demands of today's market, one of the objectives of this paper is to prove how hotel is necessary to constantly monitor the market demand and use them to assess which investments must be made in order to keep itself competitive.
in the market, and if possible, improve. In line with contemporary global trends and the constant growth of online sales continued capital investment in online business via the web is a very important formula for a successful hotel business, in Croatia (either the Adriatic or continental Croatia) and worldwide. The objectives of this paper are reflected in the detailed study of all the world’s achievements in the context of the application of ICT in the online sales of the hotel, such as the future representation of the ratio booking channels using the examples of the hotel’s own website, integration with revenue management systems, smart phones, integration with booking system, GDS and finally call – center of hotels, issues and challenges in the hotel’s on-line sales.

2. THE IMPORTANCE OF MANAGING ONLINE DISTRIBUTION

The Internet has been a medium that has revolutionized the hospitality industry with “Internet Bookings” coming into existence in 1994, since than the volume how online bookings have grown in the last few years is exceptional. For the most part, two major types of players service the online reservation industry, hotels and third-party travel companies called Online Travel Agencies (OTAs). For the hospitality industry, the online booking business is a logical way to extend bookings to their central reservation centers. Third-party travel companies such as Booking.com, Expedia, Lastminute, HRS and Travelocity among many others have gained a large amount of visitors looking for a one-stop-shop for all hotels in the city. The recent economic crisis is causing a huge decrease in demand and increase in the race at which hotels are participating with online distribution vendors.

Today, a modern hotel which is not participating with OTAs (Online Travel Agencies) is not even existing on the market and unless being part of some huge brand investing in both, direct marketing and distribution will never stay alive. Hotels who don’t participate they lose their market share from those rapidly growing distribution channels. Another importance is that the mark up gained by those channels is almost equal to the cost of the reservation coming via their direct distribution channels.

Figure 1: The first stop when finding a hotel to book

![Visit first when selecting hotel/resort](image)


As seen in the Figure 1, clients first search trough OTAs, next are search engines like Google, then branded hotels. This research shows, as stated above, the hotel has no way of staying alive in the market unless participating with OTAs.

In order to choose and maintain the right sales strategy hoteliers should always ask their selves these important questions:

Are guests finding lower rates and ways to book rooms? Hotels need to constantly monitor rates offered on home web and OTAs not to lose revenue with bad revenue management. Another important question is: Are clients going to pay non-discounted rates when demand levels return to normal? This is a huge dilemma for hoteliers when deciding on going to cut the rates if hotel has low occupancy. The answer to this question is that in case hotel is not dependent on seasons, markets, etc rate cutting will not only higher the occupancy but would also attract new shoppers for next time when rate levels return to normal.

Figure 2: Liburnia Riviera Hotels booking frequency by channels

<table>
<thead>
<tr>
<th>Channel</th>
<th>Booked rooms (structure in %)</th>
</tr>
</thead>
<tbody>
<tr>
<td>OTAs (online travel agencies): booking.com, venere, hrs hotel.de,...</td>
<td>50%</td>
</tr>
</tbody>
</table>
The Figure 2 shows structure of bookings in the biggest hotel chain in Opatija, Croatia. Liburnia Riviera Hotels is an owning company of 15 hotels in Kvarner region owning hotels from 2 to 5 stars categorization. Stunning results of the research showed that total of 70% of all bookings came through online channels out of which 50% of all guests came through OTAs. This figures show that a small town like Opatija, a small country like Croatia has no chance of winning any market share if not being published on OTAs. By these numbers one can assume that this 30% of bookings made through company’s call centre are loyal guests and their friends booking Opatija and the same hotel from time to time. The other 70% represent unexplored markets for the company, however, due to OTAs, guests saw, chose and booked Liburnia hotels. There is also another side to this, and that is that all rates on OTAs are commissionable, which means that 50% of bookings through OTAs achieved approximately 15% lower profit. Considering that this bookings would never come to this company without OTAs those are remarkable results. If we take, for an example, some famous hotel in New York, hotel manager would have a totally different view and point of sale strategy than a hotel in Opatija. Guests booking famous hotels always go directly to hotel’s website and book directly and this hotel ‘numbers would be completely opposite than from a hotel in Opatija.

OTAs are the easiest way to attract guests. The advertising that OTAs investing in are in front of millions of consumers every day. It is now a common sense when booking a hotel to first check out the booking.com, etc and then makes a final decision on what hotel to choose and for what purpose. The reason why people book through booking.com, expedia, hrs and others is that all hotels in the city are at one place and with best rate guarantee. To do the most powerful sales strategy, the hotels must understand that they have to work with OTAs in a partnership deal relationships to drive maximum visibility and value and not as just one hotel in the market. In other words, full and active participation in building and managing the relationship is critical to its success. Hotels need to understand the importance of OTAs to get as much value from OTAs as possible.

The amount of bookings through Internet channels is showing tremendous growth every day, however, it could account for significant source of room bookings for some properties, and on the other hand may not account for any demand for other hotels. An important strategy for hotel managers is to measure and monitor the performance of the third-party channels. They have to monitor production OTAs not only during peak periods, but also more importantly, during slow periods. Also, managers have to keep an eye on evaluating their own situation in relation to OTAs and to watch their competitors in terms of pricing and market penetration of bookings through OTAs. Third-party online distribution channel clients are price focused, which means if they are shopping a city looking for a hotel category, the price will be the main booking motive and if hotel is not competitively priced on each distribution channel, the hotel will most likely lose the business opportunity.

3. THE ADVANTAGES AND WAYS OF USING OTAS TO MAXIMIZE PROFIT

As per Tom Costello in „Here is how to manage your OTA relationships to drive maximum value“(2011) is greatly determined how hoteliers should plan their strategies to OTAs to yearn maximum value. Here are his thoughts on researches made by Cornell:

In October 2009, Cornell Hospitality Report published an article titled, “The Billboard Effect: Online Travel Agent Impact on Non-OTA on Non-OTA Reservation Volume.” A well-

<table>
<thead>
<tr>
<th>Call Centre LRH</th>
<th>30 %</th>
</tr>
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<tbody>
<tr>
<td>LRH Web Site</td>
<td>20 %</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td>100 %</td>
</tr>
<tr>
<td><strong>Source:</strong> Author</td>
<td></td>
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</tbody>
</table>
researched document, it presented the reservations value of hotel placement on an OTA. Four test hotels (three branded properties and one independent property) spent 7–11 days cycling on and off Expedia over a three-month period. In the 7–11 days each hotel was displayed on Expedia, it appeared at the top of the first page. On the off days, the property was not available on the OTA site. During these periods, average daily bookings were monitored. The study found that when the hotels appeared on Expedia at the top of the first page, their average daily bookings increased—from a low of 7.5 percent at a branded hotel to a high of 25 percent at the single independent hotel—versus the days where they were not displayed on the site.

In total, the billboard effect was estimated at 20 percent. In effect, a hotel that receives 10 percent of its overall contribution from the OTAs also receives another 10 percent in direct web bookings contribution by being promoted on the OTAs. This halo effect of direct bookings would in theory cut the margins paid to the OTAs by half. At face value, this study implies that just by being on the OTAs, your hotel gains a 10 percent direct web contribution. However, we need to look more closely at the optimum page placement for the test hotels. How many hotels have the luxury of first-page, top-of-the-fold placement or even first-page placement? In any given market that number is probably no more than 20–30 hotels rotating regularly into those spots. So, if you are one of those hotels, you undoubtedly benefit from the billboard effect.

However, if you are not on the first page, the billboard effect is probably not as strong, and the farther you get from the first page, the more diminished the effect becomes. At the Cornell Hospitality Research Summit conference in early October, Brian Ferguson from Expedia lifted the veil on customer booking patterns. He told conference attendees that 95 percent of Expedia’s bookings occur on the first page, and 47 percent of those are in the top six spots. This reinforces the Cornell study finding that the maximum billboard effect will occur when you are in the top spots or at the very least, on the first page./1/

The major advantage of participating in the OTAs is that this strategy increases the likelihood that you will be seen when a guest is seeking a hotel to book. Guests are using OTAs as search engine as well, so possibility of someone sees the hotel is greatly maximized. By this action, hotels gain visibility and by that more chance to be seen and maybe booked. OTAs help your hotel to be visible throughout the world with no extra marketing campaigns.

When a hotel wants to develop a more strategic relationship with the OTAs, the first step is to evaluate the programs in which hotel is or planning to participate.

The most common way between hotels in Europe, including Croatia is to offer OTAs the Best Available Rate Policy. This is the rate any hotel is selling on its web and is considered the lowest rate available on the market in that moment. In this way a hotel signs a contract for a with OTAs where it states the rate offered is the lowest rate on the market, and offers an extra commission agreed by both sides. This way of positioning hotel rates on OTAs is the most affective as BAR rates are calculated due to occupancy, season, days of the week, etc., so the hotel always gets the value as planned. The main issue with positioning BAR rates is the fact that BAR rates fluctuate constantly and if the hotel has no revenue manager or a person dealing with occupancy and rates on hourly base in city hotels the best rate guarantee promised to OTAs can easily get violated. The very important thing for hotels to do is also monitoring hotel ranking as well as guest’s evaluations of the hotel because the higher rates hotel get, the higher ranking on the OTAS web page hotel receives. Another very important strategy is to watch the competitive hotels long term rates and keep own rates on the same level.

Second best way of doing business with OTAs are Promotions. This is the option that guests like as it gives them specific offers such as length-of-stay discounts or value-add offers. This is the way hotel gets a better position and another thing is that there are more and more guests in this crisis looking for a better deal and when they find it, they book it.

Another way of pushing the hotel in the first rows of the page is offering Packages. Packages are a way a hotel can offer extra discounts to attract shoppers and fill the hotel rooms in low season as rates are suppressed as a part of a total package. The best way for hotels to sell packages is to fill the base occupancy and then continue to sell Bar rates in order to keep the yield balance.
Figure 3 shows a way of yielding rates for hotel’s own web and OTAs. First column represents the name of the month, next one shows rate levels by days of the week, occupancy levels by day, rates currently published on web and OTAs and finally rates that have to be updated due to occupancy changing levels. Rates are net, non commissionable, half board based per person per day. Analyzing this figures shows that this hotel’s monthly occupancy rate is 88% per month of August. On 1st of August occupancy is 95%, published rate level index is 120 and the rate is 120 Euro per person per night in a double room. The hotel has very nice numbers until 22nd of August where occupancy levels decreases to 81% where rate goes down to 79 Euros per person per night in a double room.

Figure 3: Yield for the period of 3 months in advance

When setting a sales strategy, revenue managers have to know when to react and how. If occupancy is between 0% and 50% the best decision is to drive volume and cut rates. After crossing the line of 50% occupancy, a good sales strategy is to play with packages and special corporate discounts or for leisure guests 3+1 strategy or similar. When occupancy climbs to 80%, than the whole strategy is rate driven where highest rates are published to maximize profit. Also, with all above mentioned most important three things to take into consideration when yielding is: 1) Who is my customer, and what are his/her needs?, 2) What are my hotels financial needs? and 3) What are my market’s dynamics? A good sales strategy is only the important decision to win customers to your hotel.

Source: Author

4. RATE PARITY

Rate Parity would mean that no matter where guests choose to shop for hotel, they will always find the same rate for the same period. It is extremely easy if you do not want to use channels to differentiate hotel offering. Then hotels agree one rate to OTAs and it stays published constantly. In the past this sales strategy showed bad profit experiences because it is a common sense that guests are willing to pay more money for the last room in town. That is why hoteliers started to do yield and revenue strategies to maximize profit.

That meant that rates had to fluctuate on changing occupancy levels and ultimately, that would ask for greater involvement of revenue or sales persons in the hotel to collaborate with OTAs. Rate Parity, on the other hand, makes less sense if different pricing structures and strategies. Rate parity only applies to public rates, or rates published on the hotel web site. Rate parity applies to
a particular room on a particular night and these rates are constantly changing.

Managing accurate and competitive rates manually with respect to rate parity is extremely time-consuming and could virtually be impossible as hotels spread out and sign contracts with more and more external online distribution channels.

According to a new study by Ecole Hôtelière de Lausanne and Rate Tiger, rate parity is the dominant factor affecting hotels’ distribution and revenue strategies today, and has resulted in hotels neglecting the fundamentals of revenue management but has also opened their eyes to alternative distribution techniques. The multi-regional study (conducted in five countries), The Distribution Challenge 2012, found that revenue managers are using channel management tools and price shopping reports more than ever, up to 11 times a day on average, to drive revenue on their main channels. However as they struggle to maintain price consistency they are now seeking new ways to improve exposure, reach new markets and increase direct bookings. “Retail sites are continuously monitoring rate parity placing a lot of pressure on hotels to update rates on their channels,” observed Horatiu Tudori, Senior Lecturer, Revenue Management, Ecole Hôtelière de Lausanne, Switzerland. “Hoteliers are spending more time managing rate parity and ensuring rate integrity which is taking them away from defining more sophisticated strategies to reduce the cost of distribution and increase RevPAR.” The six-month study found that the top three issues revenue managers want to focus on continue to be: 1) increasing RevPAR, 2) controlling costs of distribution/e-business, and 3) increasing exposure. “The hotels defined the strategies they put in place for 2012 as being the need for RevPAR improvement to be achieved by higher rates and ADR, or by increasing LOS (length of stay). Their key challenge will be decreasing costs of distribution while raising rates and occupancy all at the same time ensuring rate parity across their distribution partners to avoid strict policy conditions” /2/

**Figure 4: Hotels main challenge today in maximizing yield and revenue**

![Figure 4: Hotels main challenge today in maximizing yield and revenue](http://www.ratetiger.com/ratetiger-news/ratetiger-news-archive/jun2012-ratetiger-market-research-lausanne-hoteliers.html, 28.09.2012)

The Figure 4 shows how hotels today use sales strategies combined with revenue and yield to maximize profit. It also shows that Distribution systems including OTAs are on the second most important place to maximize revenue. Explanation on Wikipedia states that RevPAR, or revenue per available room, is a performance metric in the hotel industry, which is calculated by multiplying a hotel’s average daily room rate (ADR) by its occupancy rate. It may also be calculated by dividing a hotel’s total guestroom revenue by the room count and the number of days in the period being measured. /3/

### 5. CHANNEL MANAGERS

Increasing percentage of reservations coming from third party distribution websites and constantly fluctuating rates force hoteliers to participate in a variety of websites to help them deal with rate parity and booking issues. Such websites require the person in charge, a revenue manager or a sales manager, to continuously maintain and monitor such systems. Channel managers are
an ICT solution that helps hoteliers with the complex and time consuming exercise of updating third party distribution websites. Channel managers maintain distribution channels by using a single interface. This way hotels need to update and publish rates only on one website which then sends those rates to all OTAs hotel has an agreement with. Through the ability to store and maintain complex rate structures, mark-up/margins, deductions or min and max rates updating for multiple channels can be achieved in a few minutes which otherwise, if done manually, would take up many hours. Channel Managers enables hotels to maintain rate parity across online distribution channels. If hotel has one or two OTA partners this would be an easy task to work out. However, in today’s highly competitive world most hoteliers seek maximum product exposure in order to maximize the possibilities of achieving more bookings, while sticking to one or two external distribution channels is not a good option. Attempting logging into several extranets on a daily basis or even on a frequent basis, with each extranet having a different website address and login procedure, with different markup methods, different ways to access and change rates, different contract terms, different website exceptions and different price rounding methods, is extremely difficult if not impossible. With managing only 5 external channels it takes about one hour to update prices, availability and reservations. Especially during the high season for the hotel, this can be done 3 to 5 times a day or a total of 3 to 5 hours. Channel Managers saves a lot of time. Today hotels can succeed in both at the same time and effectively. Obtain and manage increased internet exposure through external online distribution channels like booking.com, expedia.com, venere.com etc. and while maintaining accurate and competitive Rate Parity. But still, hotels need to buy Channel Managers and again publish rates on daily basis to at least two websites, Channel Manager and own website.

6. CONCLUSIONS ON MODERN SOLUTIONS AND FUTURE TRENDS IN HOSPITALITY

Rates publishing processes done manually and the internal handling of reservations have become exceedingly labor intensive and required a central reservation system with a real-time, single-image inventory.

One of the best ICT solutions tested by hotels is definitely a Micros Fidelio software called myfidelio.net which is a highly flexible, fully integrated distribution solution based on OPERA technology: the OPERA Reservation System and OPERA Web Services. Through the seamless connection to the Global Distribution Systems it empowers hotels with the ability to consolidate, control and distribute their hotel inventory. It helps generating hotel revenue by enabling consumers to conveniently book hotel reservations online through the most cost effective and successful channel, the hotels’ website. Myfidelio.net integrates to the hotel’s MICROSFidelio Property Management Systems for the download of reservations and upload of rates and availability. Full integration with Property Management Systems enables real-time automated data synchronization between the PMS and all channels, minimizing the need for manual data entry and ensuring maximum data integrity.

Figure 5: myfidelio.net schema

In today’s global market it is crucial to ensure that hotel is well presented in the key distribution channels for the market – online distribution is rising every year.

Hotels distribution, channel and content management becomes more complex, ensuring tight integration between these systems will become an even higher priority for hotels. Applications, databases and networks must integrate more easily with each other and OTAs to facilitate collaborations with partners. /4/.

Figure 6 presents what trends hoteliers expect in the future. The growing importance of the mobile channel is clear. Although the use of smaller devices for booking is not yet commonplace, it is anticipated the technology platforms used by hospitality companies must support and enable all user interactions to integrate in the future, from phone to fax to PC to PDA to mobile.

Figure 6 : Hoteliers opinions on future trends

<table>
<thead>
<tr>
<th>The Future of Hotel Tech</th>
<th>Are you going mobile? Will you invest in mobile solutions for your web site in 2010?</th>
</tr>
</thead>
<tbody>
<tr>
<td>Smartphone applications</td>
<td>Definitely 60%</td>
</tr>
<tr>
<td>TV-based features</td>
<td>Potentially 18%</td>
</tr>
<tr>
<td>Enhanced websites with</td>
<td>I’m not sure 22%</td>
</tr>
<tr>
<td>pre-arrival applications</td>
<td></td>
</tr>
<tr>
<td>Bells and whistles,</td>
<td></td>
</tr>
<tr>
<td>such as motorized drapes,</td>
<td></td>
</tr>
<tr>
<td>controlled lighting and</td>
<td></td>
</tr>
<tr>
<td>AC, etc.</td>
<td></td>
</tr>
</tbody>
</table>

Control Issues  Do you feel Online Travel Agencies have too much control?

| Absolutely | 59% |
| Possibly | 23% |
| No way | 10% |
| I have no idea | 8% |


A huge job remains to every hotel to stay present and competitive on the market because the web booking increases rapidly and is more present on the Croatian market as well. It is difficult to adjust to today’s world standards, because of outdated technology, which is due to the current economic situation more difficult to finance. Antoine Medawar, Managing Director, Amadeus Hospitality Business Group, in „Three significant trends driving the hotel industry“ said: "The clear message is that the hospitality industry is undergoing a period of unprecedented change and will continue to transform. Customers are changing; technology is changing; markets are changing. Yet this is also a period of unparalleled opportunity and we remain committed to remaining at the forefront of understanding what travelers need and demand, both now and into the future. By understanding these key business drivers we hope to deliver the technology that will make these hopes come true and will support the hoteliers to stay competitive in a rapidly changing world. /5/.

Notes

/5/ Medawar A., Three significant trends driving the hotel indus-

Literature