By Rick Swig

Operators and Economy Share Blame For Sector's Stagnant Performance

NATIONAL AVERAGE DAILY RATES FOR HOTEL guest rooms fell for the third year in a row in 2003, pushing ADR to 1991 value levels when factoring in inflation. This is a trend that has not occurred for at least three decades.

Historical trends that couple demand with rate increases show that the opportunity to match the room rates achieved in 2000 may not present itself for at least four or five years in many cities. And for some geographical markets, a 40% decline in revenue levels since 2000 has contributed to an 80% drop in net operating income. The economy and other factors have certainly played their part in creating these statistics, but hotel operators should look to themselves for a great deal of the blame.

Lower business demand has created a more competitive market and venomous rate wars. Operators have scorned third-party distribution channels because they have undermined the value of guest room rates and poached customers from their brands. At the same time, hotel operators provided the inventory and pricing strategies that led to this deteriorated state of affairs. Additionally, operators have cut product standards and services, which helped to reduce expenses, but undermined customer experiences.

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Being a customer is often the best method to discover the flaws in hotel operations. Staying at a major, brand-name, full-service hotel within a prominent market allowed me to understand how an individual hotel operation can impact its customers, its owners, its brand and itself.

My experience started with reserving a room at a pre-negotiated group rate for a four-night stay. The inquiry for an additional fifth night resulted in a rate quote that was double the group rate. This sent me shopping to a third-party distribution channel where the room was purchased for 20% above the original group rate. When I arrived with the assurance of a confirmation code, plus a major credit card guarantee and the brand's frequent guest, VIP status, I was informed that "other customers had not checked out" and, therefore, there was no room available.

After assuring the front desk agent that this displacement was not going to happen because I had followed the hotel's rules that promised me a fair transaction, I asked him to summon his manager, who forthwith appeared with the same answer that no room of any kind was available due to the behavior of other customers. The hotel manager abstained from responsibility on the hotel's behalf.

When I asked him to find a parlor with a pullout couch in his property management system, a room was found almost immediately. Before I was escorted to the room, I asked him to assure me that this would not be my resting place for the next five nights. He promised that I would not be charged for the first night and given an upgraded room for my remaining four nights. However, next month's credit card bill arrived with the charge for the first night's room.

On the way up to the room the guest service agent that guided me admitted that the front office management customarily overbooked and, consequently, the discounted rate customers were most often displaced. This was reported to a very upset meeting planner the next morning.

Either through mismanagement, dishonesty or simple broken promises, the hotel dishonored its brand, third-party distribution channel, credit card affiliate, individual frequent guest customer, a meeting planner and itself. In fact, the third-party channel probably paid the hotel less than the group's rate and pocketed revenue that the hotel could have otherwise enjoyed if it had dealt ethically with its customer in the first place.

Hotels have developed highly technical revenue management programs to maximize revenue, but the immediate side effects have been lower revenues, weakened customer relationships, reduced reserves for capital replacement, fewer proceeds available for investor distributions and lower asset valuations. Each of these aspects impact property owners significantly.

My allegory touches on some key issues of the past year and 2004. Recapturing ADR levels lost to deteriorating market conditions will be more important than stimulating demand in the future. Equally important will be recapturing customer loyalty and faith by maintaining the promise of fair pricing, value and expectations of products and services. ◆

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Rick Swig *is president of RSBA & Associates, a hospitality industry consulting firm based in San Francisco. He may be contacted at rickswig@rsbaswig.com.*