

How corporate travel can benefit from hotel rate fluctuations

If you've ever chased down the cheapest airfare, you'll know that airlines have become pretty good at adjusting their pricing several times a day to achieve the best balance between supply and demand. That means selling a seat for the highest possible price and booking the most expensive seats on any given flight - an airline's inventory being a perishable resource that cannot be consumed once a flight has taken off. This approach to revenue management began as far back as the 1970s when the low-cost carrier revolution began and airlines realised they would be able to maximise their revenue by implementing variable pricing based on anticipating and influencing customer behaviour.



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Like airlines, hotels have a perishable resource in the form of room nights. "If a room goes empty for the night, it can never be sold again," explains Corporate Traveller South Africa GM Oz Desai. "Hotels have high fixed costs no matter how many guests are staying at any given time. They also have a finite number of rooms they can sell and are influenced by things like competitor rates, weather, security, the season and even events."

In their efforts to operate at maximum capacity throughout the year, it stands to reason that they too would benefit from jumping on the revenue management bandwagon, but it has taken them some time to follow in the footsteps of their airline colleagues.

"In the current environment, we see hotels increasingly using data to predict consumer behaviour so they can sell each room night at the highest possible price. Some hotels have become so good at it that their room rates actually fluctuate more than 10 times a day. And it's not just large hotel chains that are using revenue management this way. We also see smaller independents follow suit."

If you're picturing a roomful of clever analysts crunching numbers to determine how that pricing needs to fluctuate to hit the sweet spot, think again. Today, hotels are employing sophisticated Property Management Systems (PMS) to provide data that helps define customer behaviour and purchasing trends so that they can achieve the highest room rates.

Impact on corporate travel

As hotels increasingly employ revenue management practices, the relationship of trust between hotels and their key accounts is declining, says Xuan Lorna Wang in her study on the impact of revenue management on hotel key account relationship development.

Wang adds that opportunistic behaviour such as unexpected contract rate increases and blocked room availabilities during high-demand days are among those factors that contribute to this diminishing trust. Other factors include imposed contractual restrictions and undisclosed cheaper rates being available via other distribution channels such as online travel agencies (OTAs). “OTAs drive a large portion of a hotel’s online bookings, but charge massive commissions so it is in the hotel’s best interest to get the right mix of online channels so that they achieve better yield management,” explains Desai.

“But this does not mean that corporate travel buyers can’t benefit from this strong revenue management environment. Rather, TMCs are in a strong position to add value to their corporate customers, by improving the hotel content available in their online booking tools and monitoring pricing so that hotel rooms can be rebooked when rates drop.

“There’s no reason why our customers cannot benefit from lower hotel rates as a result of revenue management-induced fluctuations, even after a room has been booked. As a TMC, we can manage our customers’ hotel spend dynamically, and achieve great savings for our corporate customers.”

For the future

Desai anticipates in the future that hotels will increasingly expand revenue management to areas of the business other than hotel rooms, such as food and beverage, meeting and event spaces, room upgrades and even loyalty programmes.

Business travellers are prepared to pay for certain supplementary services like Wi-Fi, room service, express check-out or even early check-in. “Hotels could extend their revenue management practices to factor these supplementary services in their pricing, much like airlines are starting to do with their ancillary services, like reserving a seat or extra baggage,” says Desai.

“The nub of it is that revenue management in hotels is here to stay and will increasingly become a factor for corporates and TMCs. Our opportunity lies in leveraging it for the benefit of our corporate customers.”