

Open Pricing: The Basis of Good Revenue Strategy

Why BAR Pricing Doesn't Maximize Revenue



duetto

The logo for duetto consists of the word 'duetto' in a bold, lowercase, sans-serif font, centered within a large, blue, stylized arrow graphic that points to the right.

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Why BAR Pricing Doesn't Maximize Revenue

The primary reason so many hotels and chains continue to revenue manage using a fixed-tier best-available-rate (BAR) pricing approach is its simplicity. It's easy for hotels to implement and then manage. But that simplicity is also the exact reason it's not the best choice, at least not now that there are new technologies and revenue strategies that allow open pricing and the ability to price all room types, channels and dates independently of each other to maximize revenue without having to close any off. Instead of rates all being in lockstep with BAR, hoteliers can price all rooms across all channels every day based on the actual demand within each of those individual buckets.

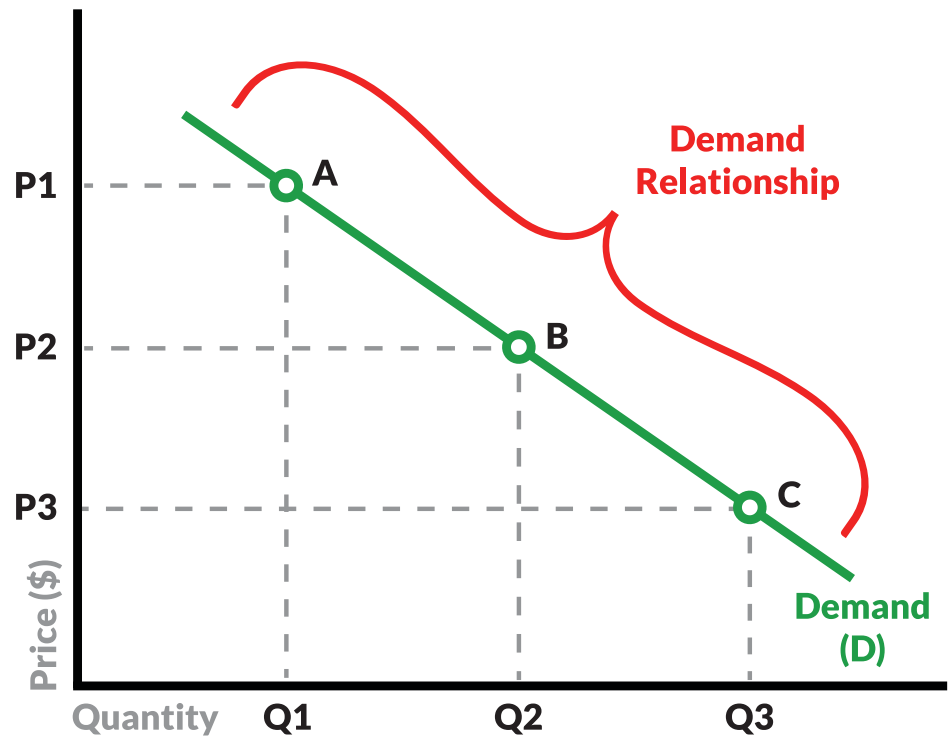
Closing Down the Bar

With a fixed-tier revenue management strategy, hoteliers establish BAR, typically the lowest public price you'd find on the hotel's website, and all other rates adjust accordingly, usually based on a percentage difference from the BAR. For example, the promotional rate might be 10% less than BAR, OTA package net rate 35% less, all the way down to opaque channels like Hotwire that might be discounted 45%.

Many in the hotel industry continue to mistake this fixed-tier BAR approach with dynamic pricing

If BAR is \$200, the promotional rate would be \$180 and the package net rate would be \$140. Hotels set one price and everything derives from that. Although that one price may be dynamically priced in real-time based on supply and demand, all the other rates are not. Many in the hotel industry continue to mistake this fixed-tier BAR approach with dynamic pricing.

Clearly the benefit of this methodology is its simplicity, but the disadvantage is the loss of potential revenue. Money is being left on the table. Look at this basic demand curve, showing the relationship between price and quantity sold:



The six blocks represent revenue captured from tiered pricing, but the static price points limit a hotel's opportunity to capture everything in between (the triangles where there are no price points). The more price points hotels have available for their demand, the closer they get to capturing the entire opportunity for revenue.

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The detriment of this fixed-tier strategy is worsened by hotels managing the other segments (OTAs, loyalty members, groups, opaque channels, etc.) as percentages benched off BAR. The hotel is missing the opportunity to use differentiated pricing applicable to different behaviors exhibited by people booking from other channels. Is someone booking through an OTA automatically only going to accept paying 35% less? Maybe they'd be willing to pay 30% less. Maybe even 20%.

And even worse is what can happen on a compressed date. Hotels obviously raise BAR to maximize revenue on days with unconstrained demand, but then discount channels need closed, meaning customers shopping those sites won't see any availability. No problem, unless that date falls between shoulder dates. A hotel is then forced to either lower the BAR so the discount channels remain open, or close those channels completely. The choice is leave discount sites open and take low-value business or close them out and risk losing much needed bookings on shoulder dates.

The other pitfall with this fixed-tier strategy is when a hotel misses high on a group rate established in advance. If there's a rate parity clause in the group contract, as is often the case, the hotel can't publicly sell rooms for less than that agreed upon rate. Then the hotel must keep the BAR above that, and all the other segment prices fall in line accordingly.

Now the hotel has artificially (and automatically) inflated all other rates because it has made one mistake on a group rate. In that instance, the public BAR is gone and there's no fixing it, but why give up on all the other discrete segments. Hotels should still be able to revenue manage those and can recover from the original mistake.

To capture as much money as possible, hotels should be determining the right rate for all the different segments of their business every day. Hotels need not be slaves to a structure that won't optimize their revenue anymore.

Open to a New Way

Instead of closing channels with a fixed-tier BAR strategy, open pricing enables hotels to always keep the doors open across all channels by pricing rooms based on forecasted demand and pace specific to those channels. The promotional rate could be two percent less than BAR on a compressed date and the more typical 10 percent on softer dates.

The OTA package net rate may not even be discounted on a highly compressed date, but at least it would remain open to customers only shopping those OTAs.

Open pricing can also give hotels the ability to price different room types independent of each other, based on demand rather than a predetermined amount. Like with BAR pricing and promotional rates, hotels typically set a modifier between basic room types like a standard and a suite. The modifier might be a suite always selling for \$50 more, but why not price room types independently to always have a suite available for the high-worth last-minute traveler willing to pay for that luxurious experience or for the family in need of a kitchen?

New technology and the integration of property management, central reservation and revenue strategy systems are making this complex matrix of pricing a reality. Even if systems aren't yet fully aligned, hotels can manually take steps to maximize revenue through open pricing. They should set up several yieldable segments and manually make rate changes on highly compressed dates when the revenue potential is greater than the cost of that data entry.

Fixed-tier BAR pricing is a relic from an era when hotel distribution was simple and rate fences were high and opaque. Today, those fences between distribution channels are low enough for many to jump over and they are transparent in an era of Google, metasearch, TripAdvisor and the like. BAR pricing is inflexible and prevents a hotel from maximizing value for itself while also frustrating guests who don't understand why the hotel is often open on some channels but closed in others.

Open pricing means never closing the door on a guest who wants to book a hotel. It's also what revenue management should be about: Maximizing revenue by selling the right room to the right customer at the right time for the right price.