Pricing Psychology in Challenging Times

Welcome: our webinar will begin shortly

Thank you to our ROC 2020 Preferred and Platinum Partners:
Other resources & upcoming events

HSMAI Coronavirus Resources:

https://global.hsmai.org/insights/coronavirus-resources/

Our next Confronting Coronavirus webinar in this series:

Crisis Communication and Marketing Expert Insights
Chris Davidson, MMGY and
Laura Guitar, rbb Communications
Thur Marct 12, 3pm ET

ROC Americas
June 16-17, 2020
San Antonio, TX

Sales Leader Forum
October 27-28, 2020
Frisco, TX

Marketing Strategy Conference
Feb 24-25, 2021
New York, NY
Get a midyear strategy boost in this uncertain environment.

We’ll address the issues through the lens of what they mean in periods of low and/or no demand, demand uncertainty, and recovery:
• Navigating the Economic & Geopolitical Risks and Opportunities Ahead
• Optimizing the Ecosystem for Multi-Property RM
• Revenue Management Everywhere: Cross-industry RM Learnings for Hoteliers
• Driving Incremental Revenue from Premium Rooms
• The Magic is in the Mix: A practical discussion on leveraging transient demand, group forecasting, and group price optimization in order to maximize overall profitability
• Telling the Story Behind the Numbers
• Manufacturing Consent: How to Get Your Owner to Say Yes
• Leading and Developing RM Teams for Maximum Performance
• Demystifying Artificial Intelligence: Readying the Industry for the Rise of the Machine
• And more!

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Pricing Psychology in Challenging Times

Carter Wilson | SVP, Consulting & Analytics
str  CoStar Group™
How Do Hotels Behave Under Extreme Duress?
What We Know

U.S. ADR plummeted in 2009
Demand declines preceded ADR declines
No major markets were immune
What We’ve Heard

One hotel in the comp set lowered rates first...

...forcing the others in the comp set to follow
What We Are Solving For

Evidence of “rogue” hotels
(initial rate-slashing by a single property in a comp set)

IF TRUE, THEN:

Did other hotels follow?

What was the timing gap?

Did any hotels NOT drop rate?
Disclaimer:
There Are No Winners Here
Methodology

Chicago, IL Market, All Hotels

Daily Data Analysis, 2008 - 2010

Threshold ADR Drop of 10% = “Slashed”

Downturn Began September 2008
What We Found
Rogue hotels and second movers suffered ~20% Total ADR Drop
### 3rd and 4th Hotels Were Willing to Sustain Double the Occupancy Loss

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<tbody>
<tr>
<td>Occ % Change At Peak RevPAR Drop</td>
<td>-21.1%</td>
<td>-21.5%</td>
<td>-17.9%</td>
<td>-15.8%</td>
</tr>
<tr>
<td>ADR % Change at Peak RevPAR Drop</td>
<td>-7.2%</td>
<td>-7.8%</td>
<td>-12.1%</td>
<td>-15.0%</td>
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Source: STR
By Class
Economy & Midscale Comp Sets

ADR % Decline

224 days

93 days

Days After Rogue Dropped 10%

Source: STR
Upper Midscale & Upscale Comp Sets

ADR % Decline

Days After Rogue Dropped 10%

150 days

43 days

Source: STR
Upper Upscale & Luxury Comp Sets

ADR % Decline

Days After Rogue Dropped 10%

Source: STR
The Higher the Chain Scale, the Shorter the Timing Gap
The Closer to Downtown,
The Shorter the Timing Gap
Did Any Hotels NOT Drop ADR?
Hotels That Didn’t Slash ADR Lost More Demand...

- 20%
- 15%
- 10%
- 5%
- 0%
- 5%
- 10%
- 15%
- 20%

Demand % Change

Source: STR
...But Experienced Less Extreme RevPAR Declines

![Graph showing RevPAR changes from September 2008 to December 2010](chart.png)

- Blue line: Hotels with ADR Drop >10%
- Green line: Hotels with ADR Drop <10%

Source: STR
Chicago Market Summary

• It took an average 239 days of demand decline for first hotel to lose 10% ADR.
• The second property to drop ADR lowered about a month later, and the final property about four months later.
• Properties with the lowest ADR heading into the downturn tended to cut ADR first.
• Upper Upscale/Luxury sets dropped ADR faster than other chain scales.
Downturn Profitability Analysis
Results

• Nearly every hotel lost significant RevPAR in 2009
• Full-service hotels that sacrificed occupancy and held rate had profit declines of 24%
• Full-service hotels that sacrificed rate in favor of occupancy had profit declines of 31%
• Comparable results for limited-service hotels
ADR Rebound After External Shock Takes Time
Total U.S., 12MMA, Monthly ADR % Change, Indexed to Event

Source: STR. 2020 © CoStar Realty Information, Inc.
Overall Key Findings

• Chicago overall patterns consistent with other markets we studied (Upper Up/Lux)
• Most hotels are unable to hold rate steady when competitors drop.
• Properties sacrificing rate for occupancy in 2009 had more severe profit declines
• There are no winners – all hotels had significant losses. Operators need to analyze impact of both ADR and occupancy on their properties. Create stress test to prepare for next downtown.
Questions

Carter Wilson

SVP, Consulting & Analytics

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