

Forecasting & Pricing Breakout Session

Dax Cross

Revenue Analytics, Inc.

Revenue Management & Internet Marketing
Strategy Conference

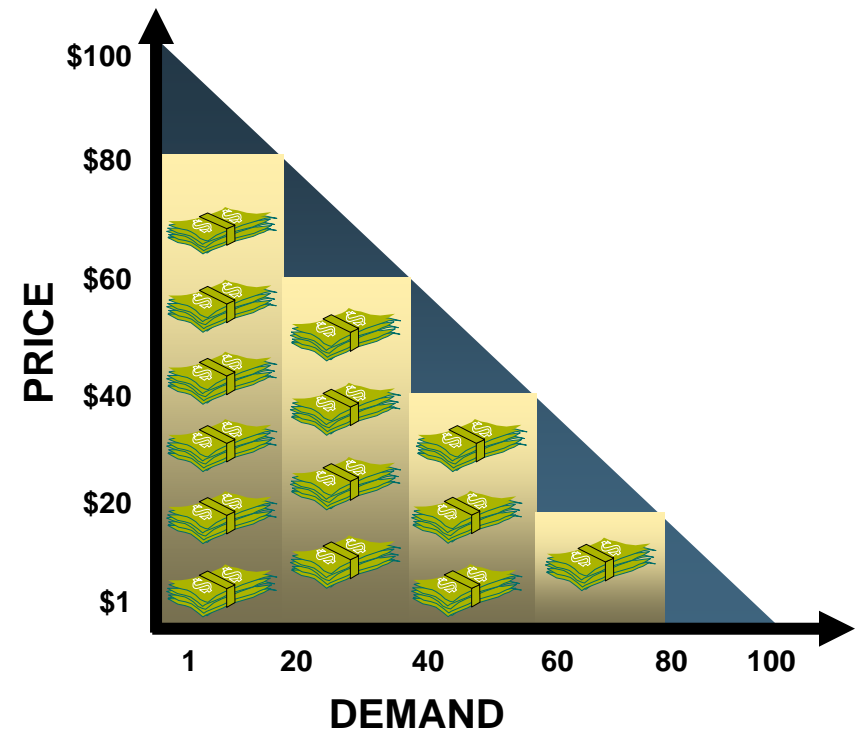
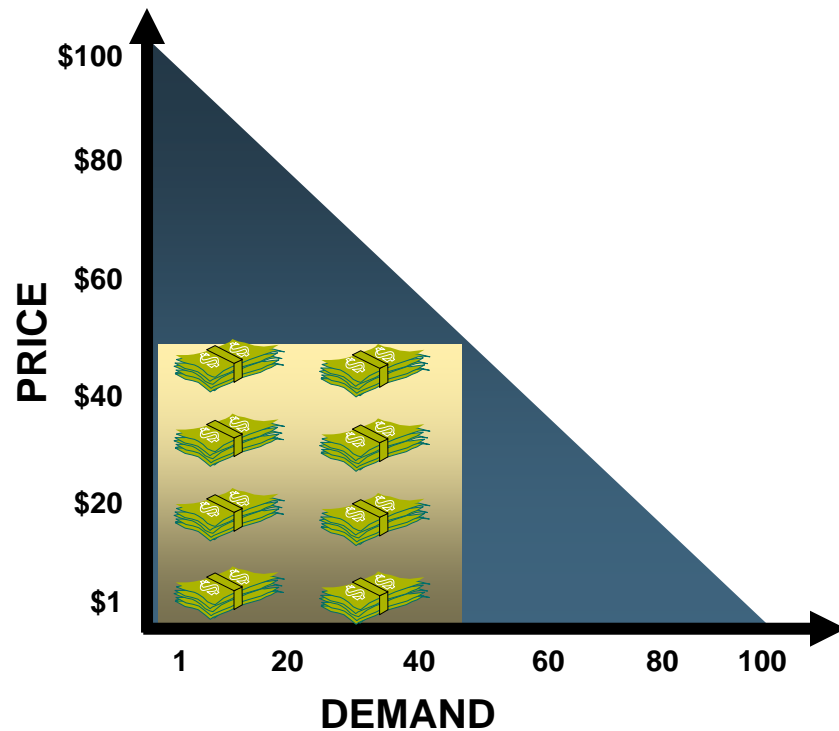
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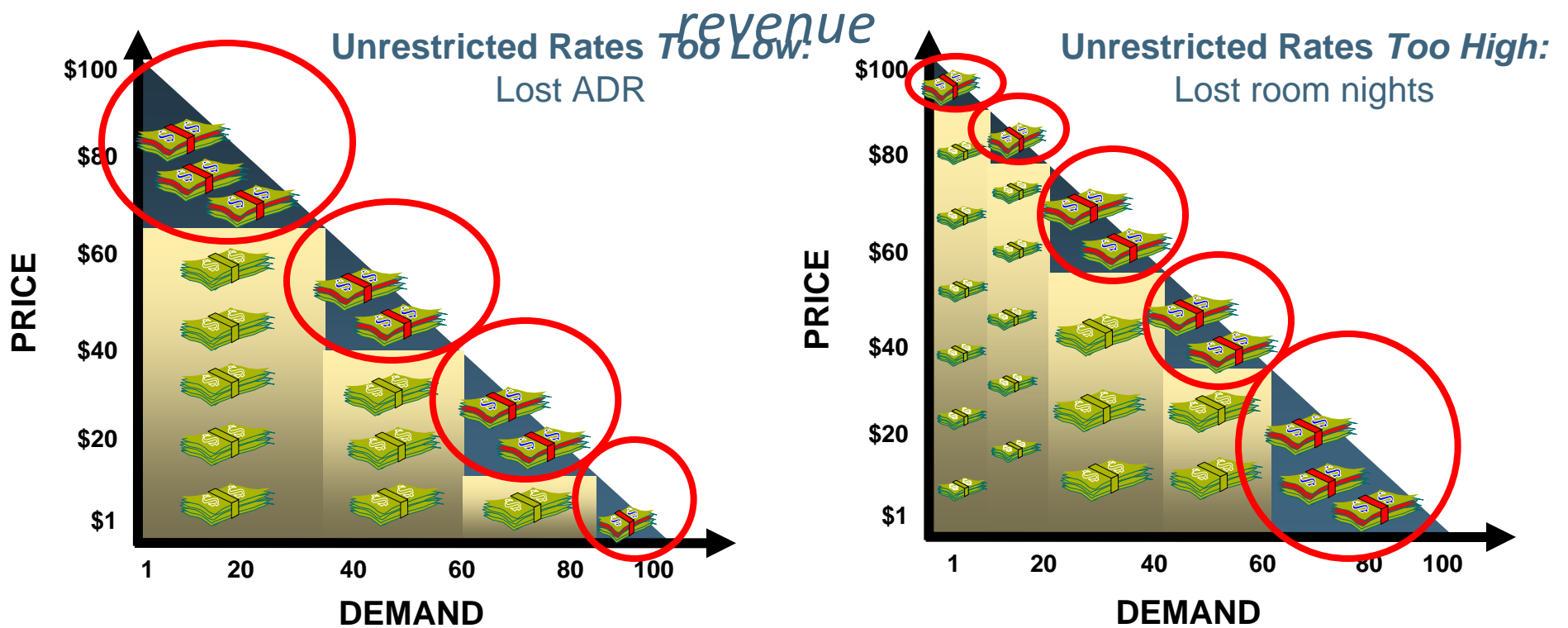
The Traditional RM Opportunity: *Segment Demand and Open/Close Rates*



We yield rates... but is the rate right to begin with?

The Pricing Problem:

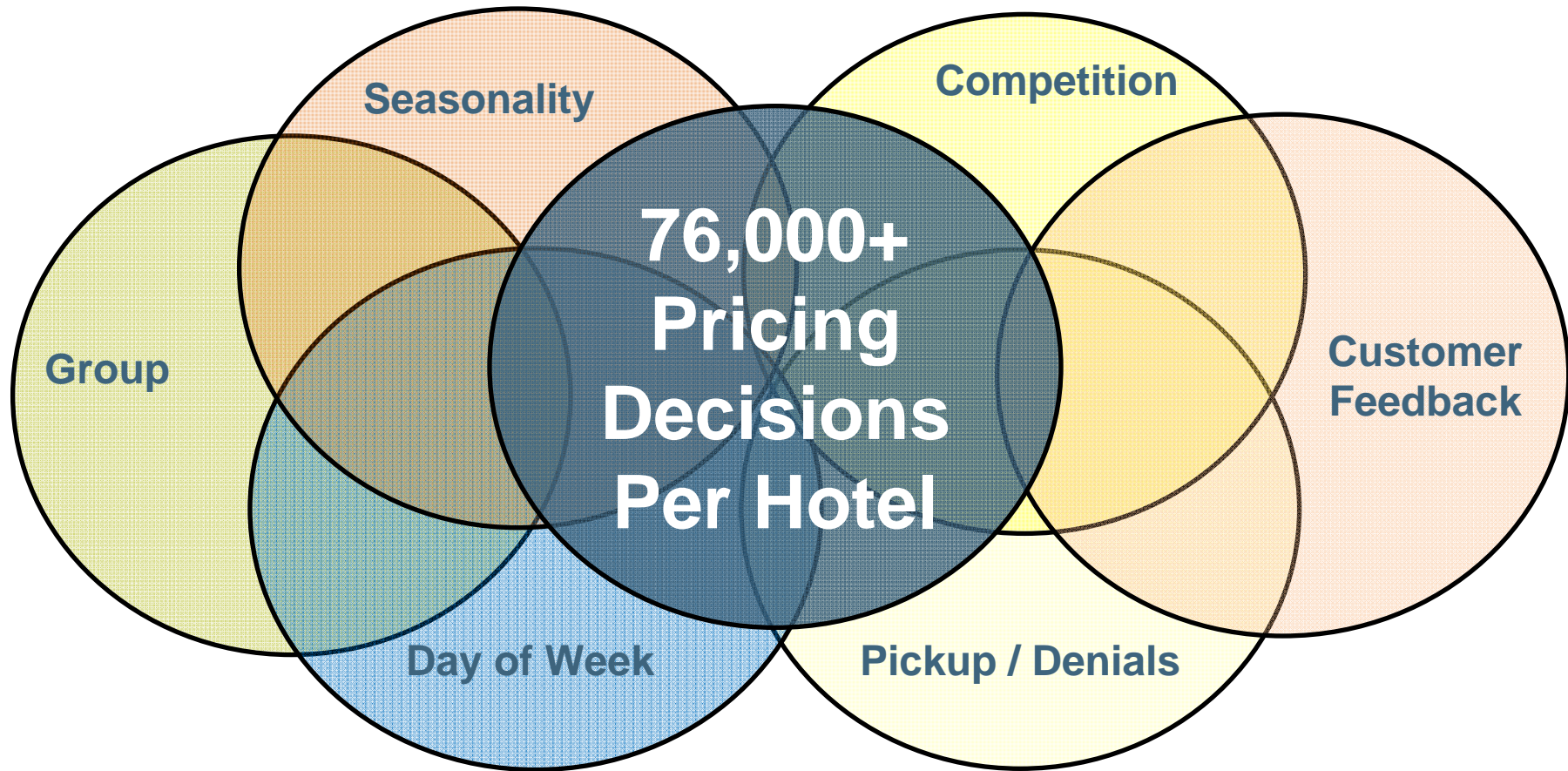
Even with optimal controls, pricing errors cause lost



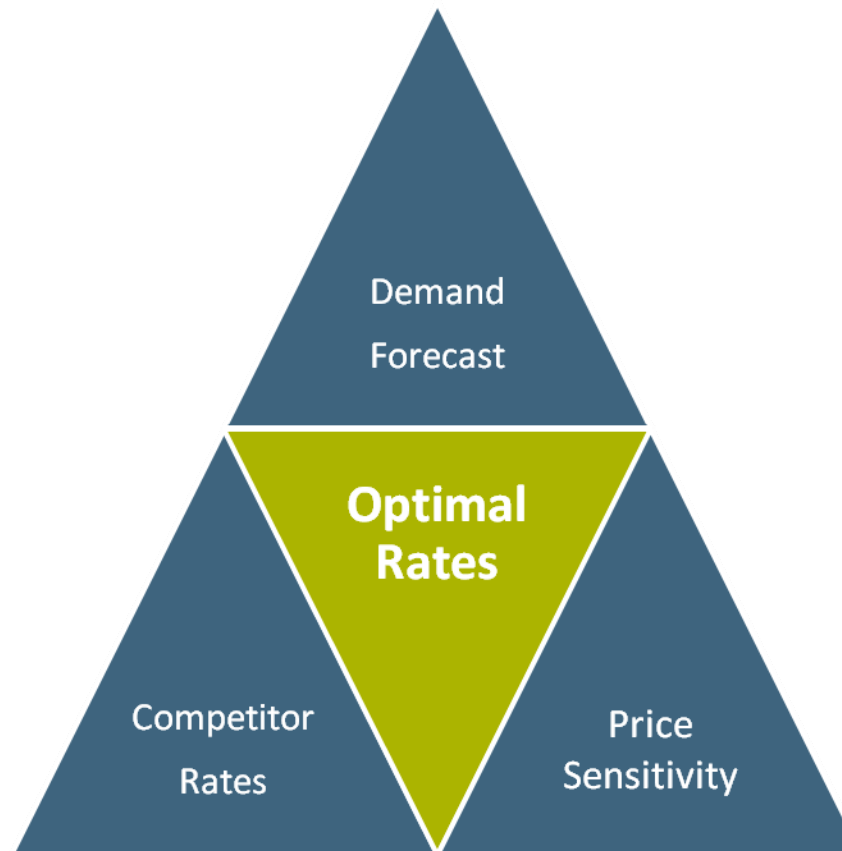
If demand is weak, how low do we go?

The Challenge:

How to manage the complexity?

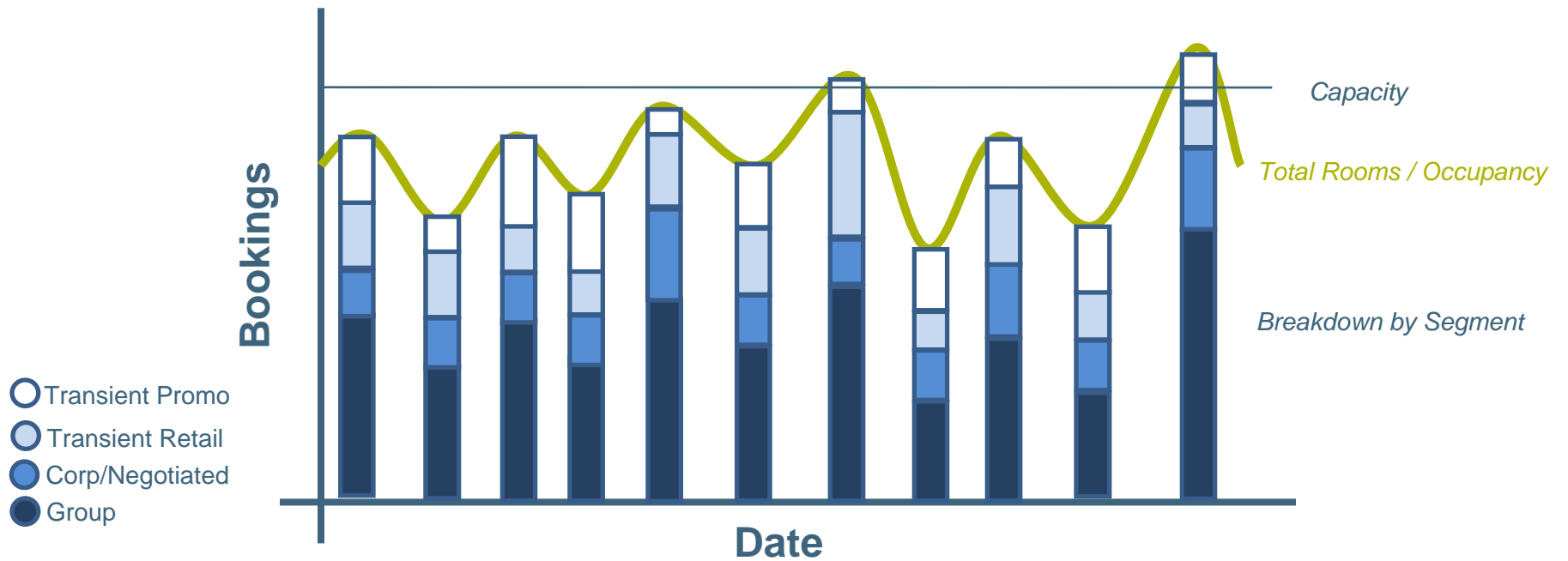


Key Factors for Optimal Pricing



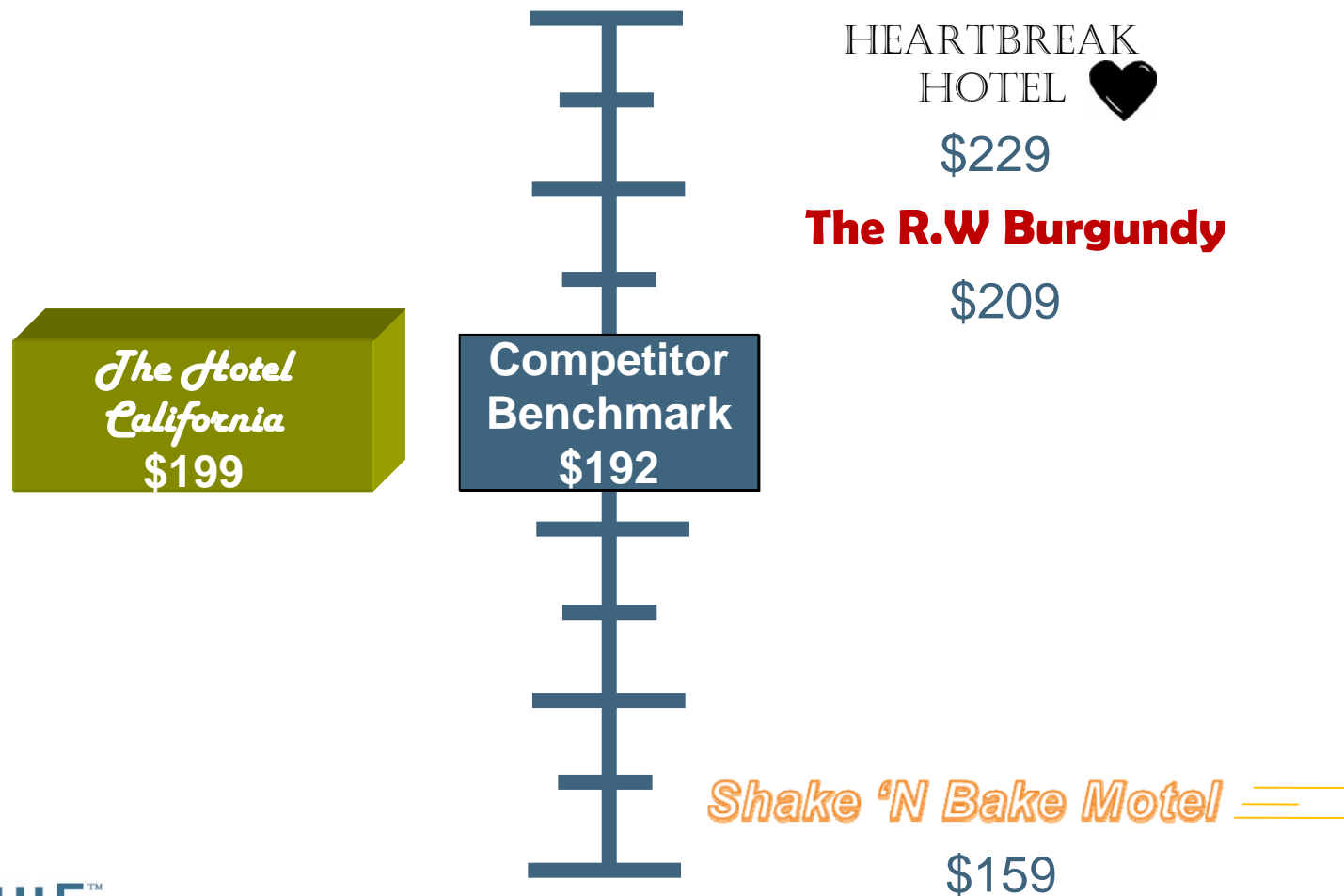
Demand Forecast

Precision pricing requires accuracy and granularity



Competitor Rates

Competitor rate changes impact market position



Price Sensitivity

How does pace respond to changes in market position?

Modeling Demand as a Function of Price

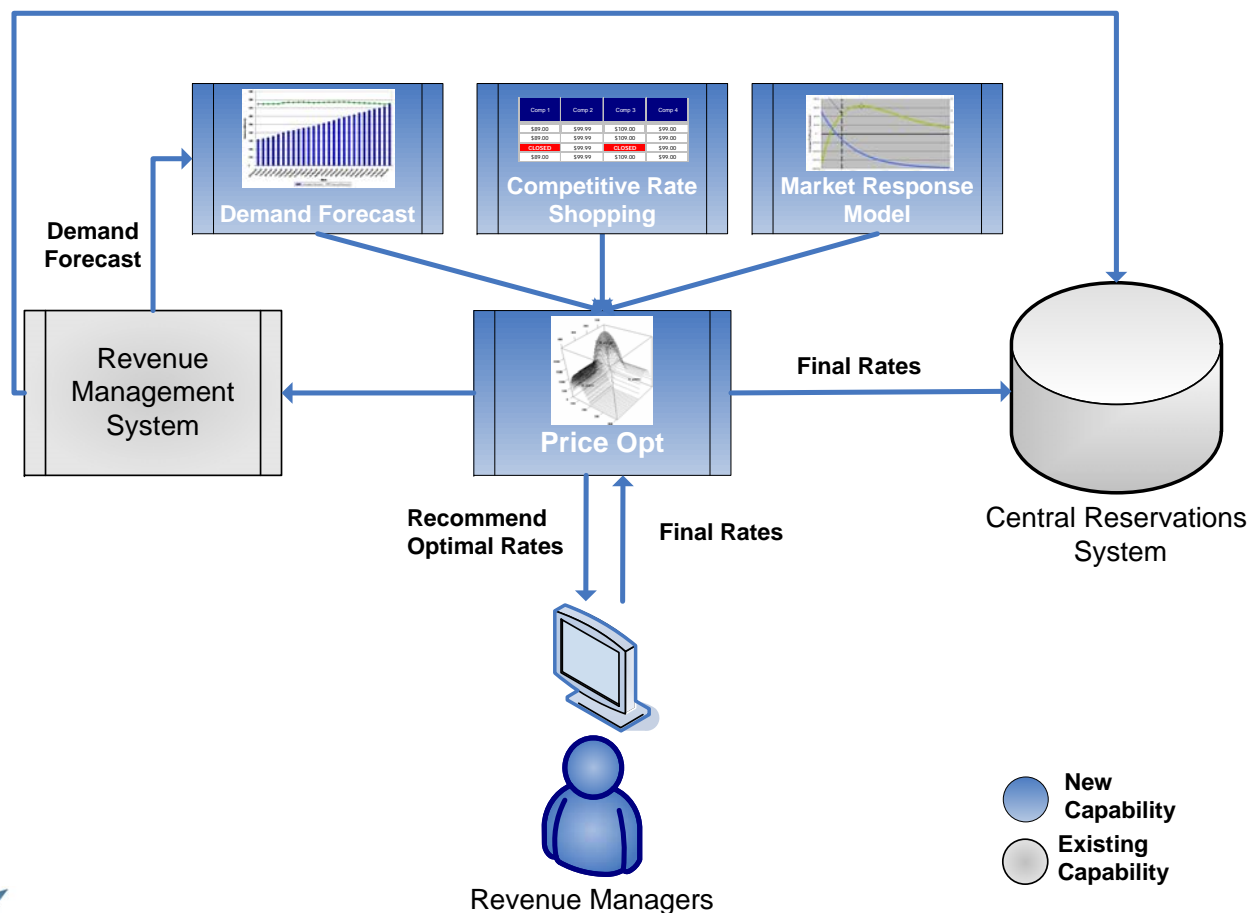


How does the answer change for different segments?

- Weekday vs. weekend
- Direct vs. third party web
- Season
- Retail vs. package/promo

Next Gen RM: Transient Price Optimization

Brands Designing and Rolling Out New Enterprise Capabilities

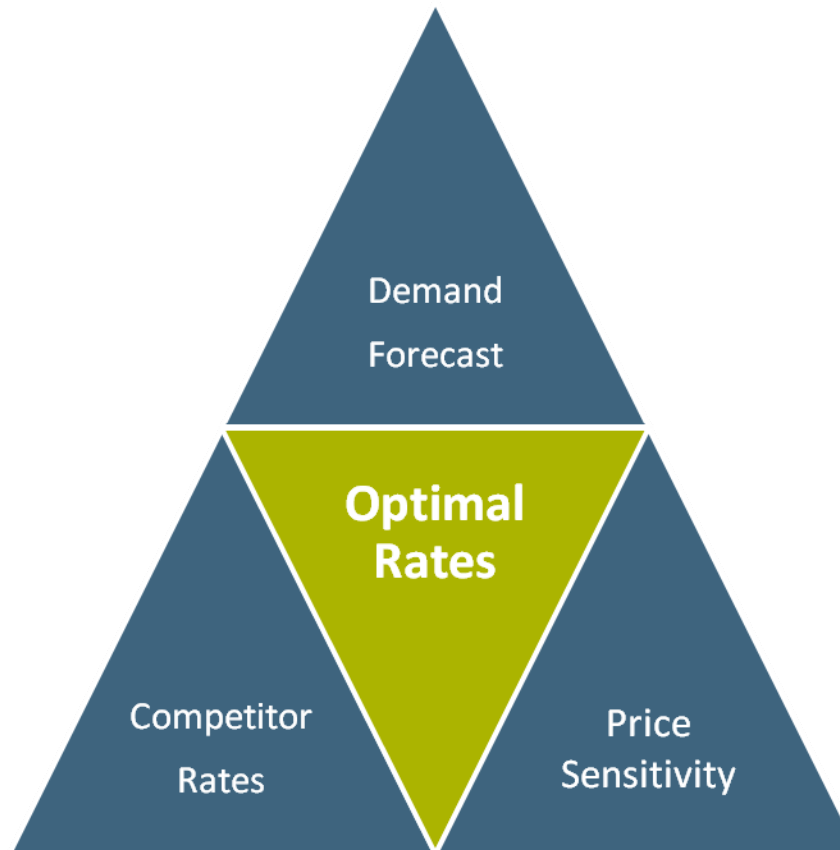


Profiled in Q1 2009 "RM Renaissance" Article



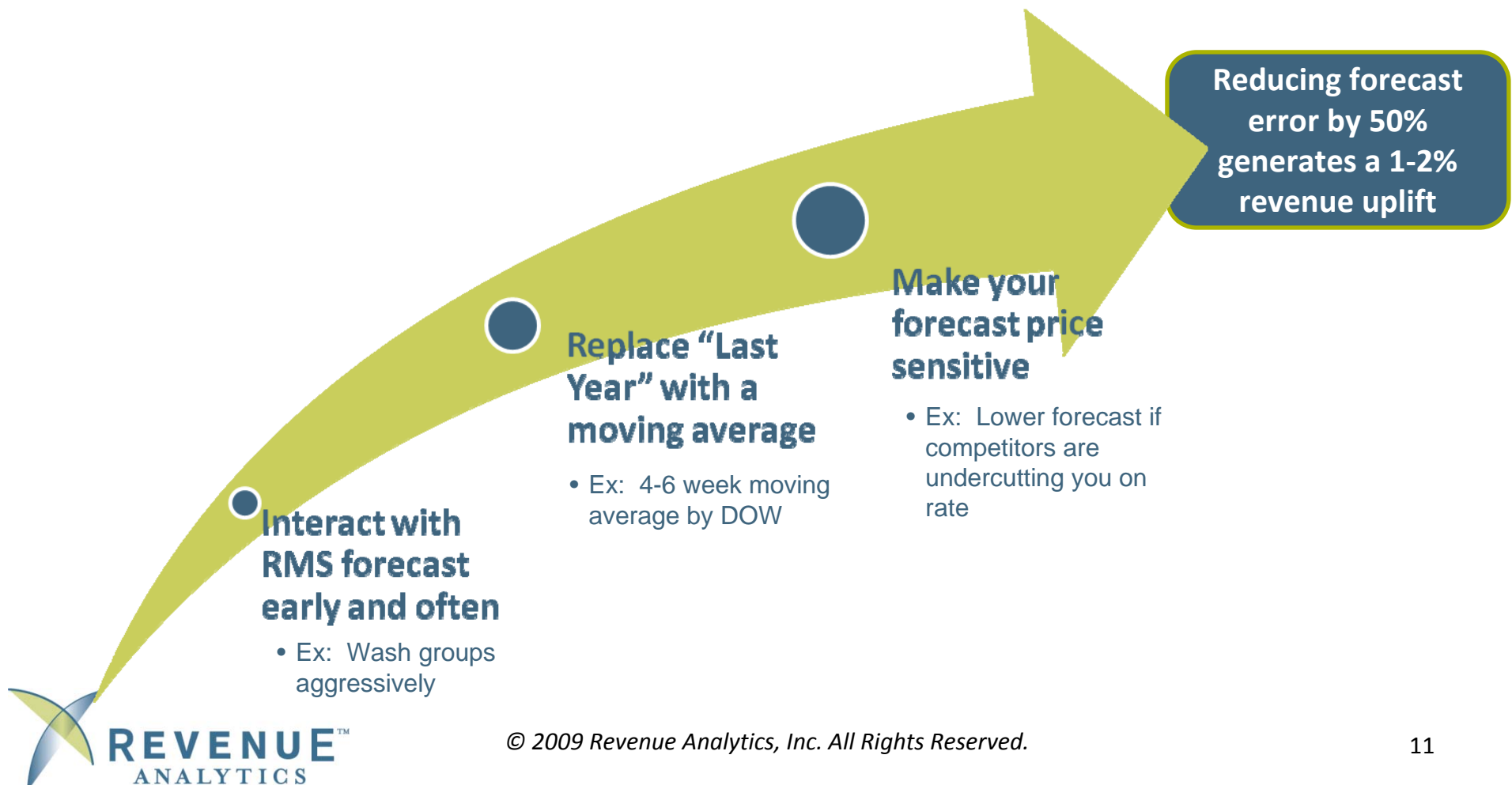
2008 Hospitality Innovation Award from Cornell University's Pillsbury Institute

Using Price Optimization concepts to improve pricing in a down economy



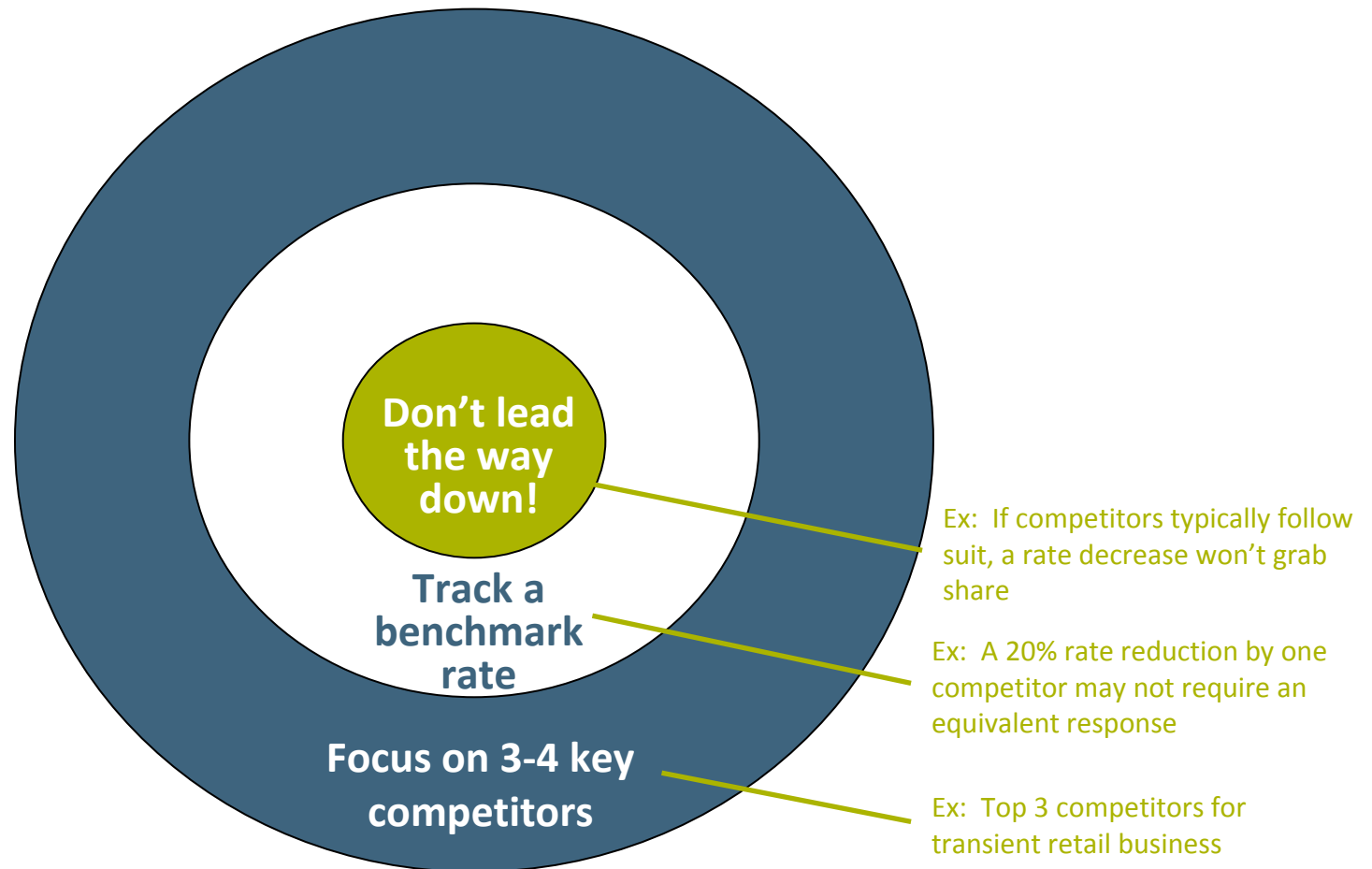
Demand Forecasting

Tips for Forecasting in a Down Economy



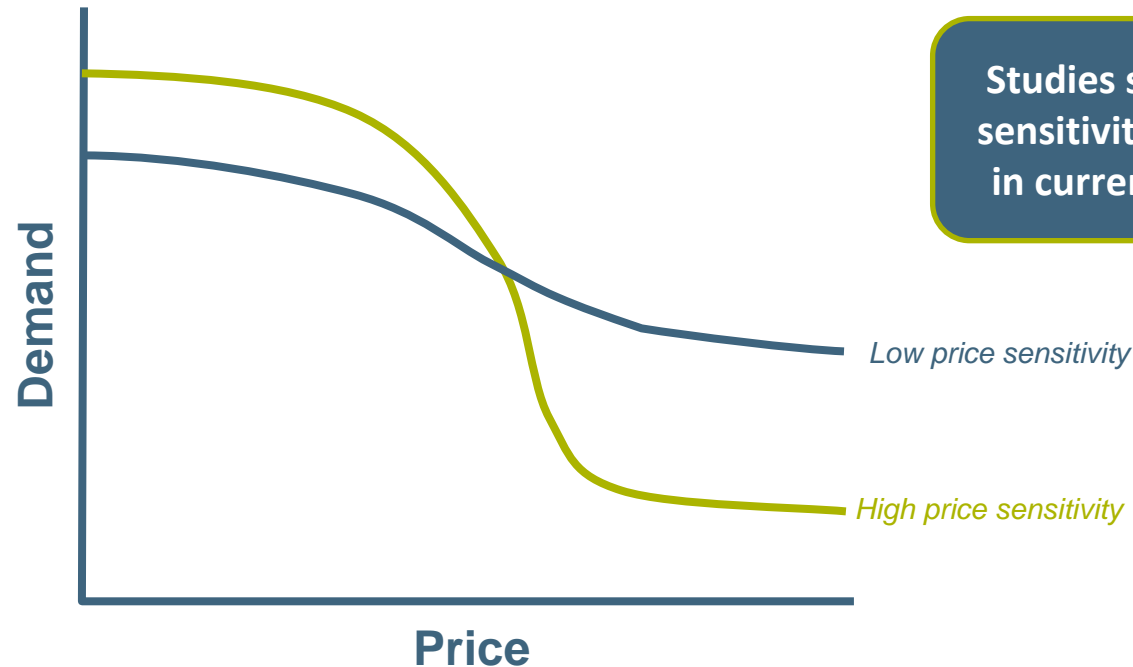
Competitor Rates

Tips for Market Positioning in a Down Economy



Price Sensitivity

Tips for Understanding Price-Response in a Down Economy



Studies show higher sensitivity / elasticity in current economy

1. Perform market tests to assess price-response

- Ex: Increase rate vs. comp set and measure pickup

2. Rate price sensitivity by segment

- Ex: "High" price sensitivity on summer weekends

3. Conduct breakeven analysis for decreases

- Ex: How many room nights must we sell to breakeven on a \$25 rate decrease?

Optimizing Rates in a Down Economy

A rules-based approach to "How should we go?"



- Demand forecast
- Competitive benchmark
- Price sensitivity rating

- At least two factors aligned,
OR
- Strong signal with one factor

- Determine rates / channels to change
- Determine amount of change

Optimizing Rates in a Down Economy

Example: Tuesday, July 14 at the Hotel California

Demand Forecast

Demand	July 14 – Last Year	July 14 - Forecast
Capacity	400	400
Group Block	100	100
Corporate / Negotiated	30	24
Transient Retail	200	160
Transient Pkg / Promo	60	48
Total Demand	390	318
Occupancy Forecast	98%	80%

Use Moving Average from last 4 Tuesdays

Competitor Rates

Best Available Rate	Tuesday Average	July 14
Heartbreak Hotel	\$229	\$239
The R.W. Burgundy	\$209	\$179
Shake 'N Bake Motel	\$159	\$149
Comp Benchmark	\$199	\$189
Own BAR	\$199	\$199

Benchmark provides quick reference

Price Sensitivity

Intelligence	Insight
Pickup from recent weekday rate reduction	10%
Denials generated after rate increase on high occupancy night	56
Uplift from recent promo	25
Price Sensitivity Rating	High

Use intelligence to determine a rating

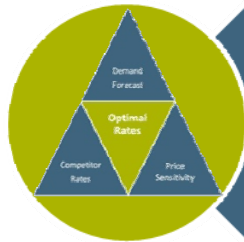
High Demand
Lower Comp Benchmark
High Price Sensitivity

3 factors point towards reducing rate

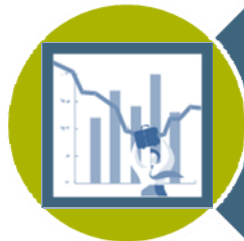
Consider rate decrease to to \$189
Evaluate running promo

Conclusion

Rules of the Road for Pricing in a Down Economy



Pricing is complex – net out analysis into the 3 key factors



Move down with the market... but don't take the market down



Don't hit the pricing panic button. Today's panic price is tomorrow's reference price!