



## **INTRODUCTION TO THIS DOCUMENT**

**IDEA published this article on COVID-19:  
Managing hotel revenue amid demand uncertainty.**

## **OUR TAKE-AWAYS:**

### **This is what we learned from this document:**

- **Hotels' best defence in these uncertain times is level headed and data driven-intelligence**
- **Hotels should learn from the past trends before moving forward to the new normal.**
- **Rational thinking is important with a focus on long term strategies that account for multiple outcomes across your organisation.**
- **Hotels should focus on the right product, right price, right channel, right customer and right time instead of offering discounts as a short term solution.**



# COVID-19

## Managing Hotel Revenue Amid Demand Uncertainty

A proactive, data-driven approach to handling and recovering from significant demand disruption.

March 2020

**IDEAS**<sup>™</sup>  
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In a relatively short timespan, the COVID-19 coronavirus outbreak has significantly impacted the global travel and hospitality industry. The Chinese mainland and markets sourcing a large portion of travelers from China have been most adversely affected thus far, but concern and disruption have now risen beyond the Asia-Pacific region.

As cases of infection continue to appear in new countries daily, quarantines, travel restrictions, government regulations, and event cancellations have already caused demand disruption for many hotels in affected countries.

Do not panic, but do be proactive. Guest occupancy rates can slow when faced with an issue like COVID-19, but we should be positive that business typically bounces back quickly. The overall trend for the industry is and will remain positive.

Whether your business is threatened by a health crisis or natural disaster, political unrest or economic uncertainty, your hotel's best defense in uncertain times is level-headed, data-driven intelligence.

***The journey to your hotel's recovery begins now.***

# LOOK BACK

## Before Moving Forward

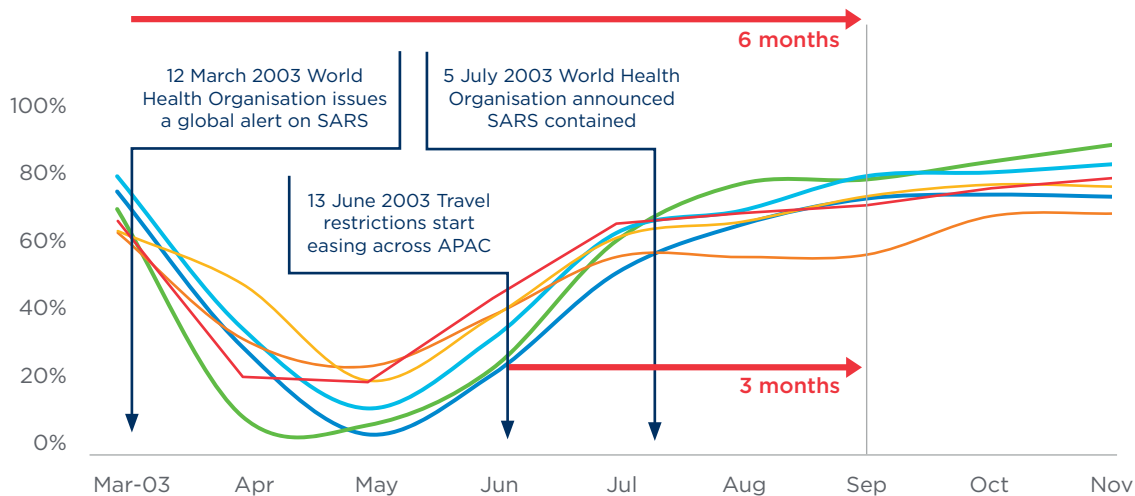
Is there anything to be learned from the past? In March 2003, the Severe Acute Respiratory Syndrome (SARS) outbreak in China caused a crisis across the Asian tourism industry. The spread of disease was contained in four months, but recovery patterns varied over the course of the year.

### China hotels recovered sharply after SARS travel restrictions eased

China, March-November 2003 Occupancy



■ Beijing ■ Hong Kong SAR ■ Shanghai ■ Guangdong ■ Chengdu & Chongqing ■ Singapore



Source: STR, 2020 ©CoStar Realty Information, Inc.

Overall, mainland China experienced a fairly swift recovery from SARS once the outbreak was contained, but SARS and COVID-19 are quite different. The speed of the current epidemic's transmission, the number of patients, and the number of deaths have already surpassed SARS. Moreover, the size of the hotel and travel industry has also changed dramatically, especially in China with the number of Chinese hotels in 2019 being 50 times that of 2003. The Chinese Center for Recreation and Tourism Research has estimated the total loss of Chinese tourism this year could reach three trillion RMB yuan. That's ten times greater than the estimated loss from SARS.

Despite all the current unknowns surrounding the spread and containment of COVID-19, the outbreak's severity already points to a prolonged recovery period for much of the global travel industry. What's important now is to remain calm and maintain rational thinking with a focus on long-term strategies that account for multiple possible outcomes across your entire organization.



# ENACT

## An Organization-Wide Approach

### REVENUE MANAGEMENT

When faced with a high volume of cancellations, hotel revenue managers might be tempted to offer short-term discounts or rely on more expensive distribution channels to attract bookings from other markets. While this might seem like a good strategy for the short term, these changes in strategy typically elongate the recovery period and may lower market willingness to pay. Lowering prices will not stimulate demand in this situation.

Discounting takes time to rectify once demand rebounds, as does giving too much business to costly third-party channels. At times like these, keep the “five rights” of revenue management at the top of your mind.

*Hoteliers should invest in future opportunities in their people, processes and technology to gain a competitive advantage in the good times to come.*



- ▶ **Right Product:** “Focus on how you can develop packages and bundles that add value to the consumer without costing the hotel too much. Think about what customers want and try to deliver it without giving away the house,” advises revenue management expert and Cornell University professor Sherri Kimes. “Also, focus on packages that are hard to imitate—anyone can offer an extra night for free, so try to develop packages that are unique to your hotel.”
- ▶ **Right Price:** “Beware of unqualified discounting,” warns Sherri Kimes. Lower prices don’t bring in more customers—they bring in the wrong customers. Since the beginning of this outbreak, hotels have observed the increasing slow-down of revenue pickups and new reservations. Despite the alarming implications of this trend, you must stay firm with your pricing strategy and avoid making drastic changes.
- ▶ **Right Channel:** Maintain and protect your public rate. Any promotions should be fenced, opaque, and only available via specific channels. Widespread discounting can have a negative effect on your perceived value on the market. Instead, take the time to identify which channels, sources, and markets are still booking and ensure you target those specific segments.
- ▶ **Right Customer:** Now is the time to nurture your current customer base. Leverage and bolster loyalty program offerings to keep your repeat business segments happy and booking. Focus on consumer behavior patterns throughout the outbreak. Optimize your market segmentation and grasp the most valuable customers to secure and reclaim competitive strength toward a faster recovery.
- ▶ **Right Time:** Be patient. React swiftly but mindfully to new developments. Speed to market recovery will remain difficult to assess in the near term, but consider your long-term brand image and employee satisfaction in any decision made.

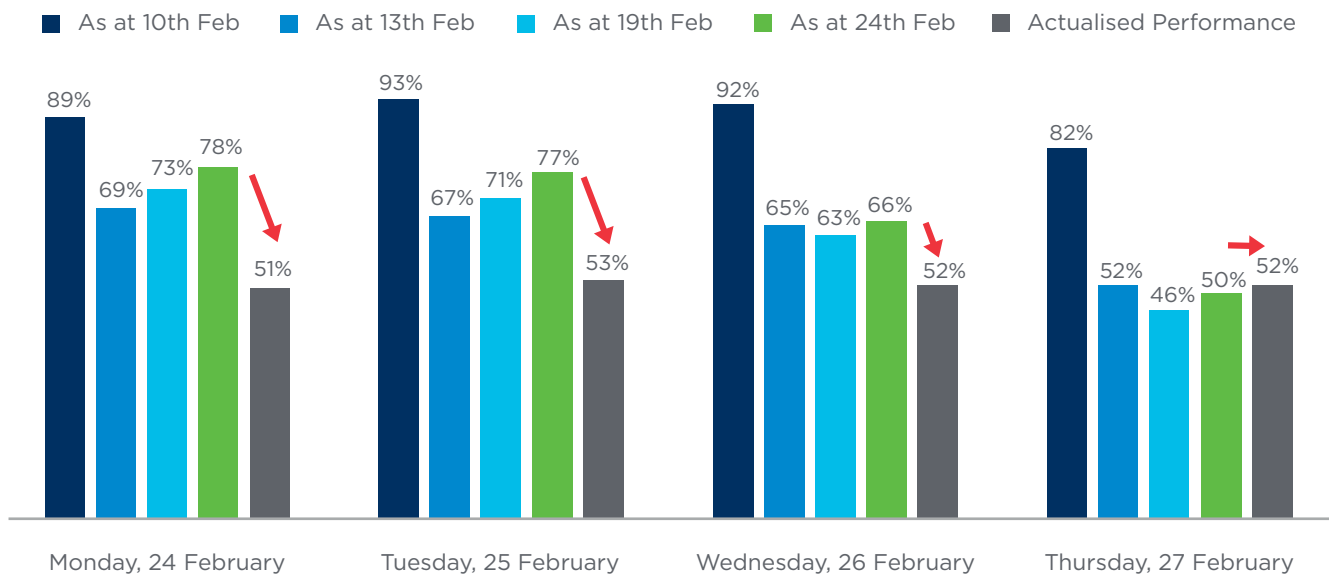


## MEETINGS & EVENTS

Convention hotels are facing especially difficult times during the outbreak. For example, the last-minute cancellation of one of the largest trade shows in the world, Mobile World Congress, in Barcelona and other international celebrations such as the Venice Carnival and global sporting events, will have far-reaching effects.

### Barcelona saw the first major event cancellation due to Corona virus

Forward STAR: Barcelona Business on the Books



Source: STR, 2020 ©CoStar Realty Information, Inc.

According to STR, the highest business-on-the-books day during Mobile World Congress was set to be February 25. However, on the day after the cancellation was announced, bookings dropped dramatically, and actualized performance saw a 40 percent drop in expected occupancy on peak days.

The loss of revenue, not only to the hotel industry but also the local economy, will have repercussions for years to come. The recovery of the meetings and events business segment, with its heavy reliance on group bookings, will take much longer than other segments.

Convention hotels with external catering credentials may explore expanding into new markets—such as office buildings or small enterprises in the area that do not have a staff cafeteria—to provide food delivery and deli products. This can help to promote the hotel's reputation, increase total revenue by fully using the resources as well as release some cash-flow pressure.

## FOOD & BEVERAGE

In regions heavily affected, in-house guests may prefer to eat meals in their rooms or sit individually in restaurants. This could have an impact on table layout design and seating effectiveness in restaurants. Plan for an increase in in-room meal service and optimize your restaurant floorplan with these considerations in mind.

Chinese hoteliers in particular may consider providing more Western-style menu and ordering options instead of the traditional, shared family style in restaurants. This can help prevent the spread of the virus contagion and also avoid food wasting. However, it will require careful calculation on the potential increase to labor expenses and food cost.

## OPERATIONS

During this outbreak, revenue managers should regularly update hotel occupancy forecasts and provide them to the operations department for proper staffing accommodations. The revenue manager must also maintain close communication with the front office and housekeeping teams. If occupancy drops significantly, close entire floors or wings to reduce unnecessary energy costs.

To keep up with increasing public attention on health and safety, hotels need to focus on more details of their health service protocol as well, including guest-room hand sanitizers, fresh-air systems, display of indoor air quality, high-quality bedding, nutritional, organic food supplies, airport transportation vehicles in a clean and disinfected condition, etc., to improve service quality and guest satisfaction.

## FINANCE

Strategic forecasting of cost focuses on energy, labor, and all those unnecessary expenses, and then controls those costs to minimize it. This process requires collaboration from all departments. In terms of labor cost, try to clear out staff overtime and encourage everyone to take annual leave. This may also be the opportune time to schedule training for local staff, or if your property has already budgeted for renovations this year, consider pushing those up to make the best of a lower-demand period.

Don't cut back on customer-facing areas of your property. Service levels must be maintained. Also, don't cut your marketing budget. Rather reallocate and refocus on segments you feel more confident about attracting.

*The best way to prepare for future uncertainty is by being certain about your own business strategies under any condition.*



For hotel chains, leverage a balanced global portfolio to mitigate the negative impact in one country or another. Do not rely on a one-sided plan, but develop a strategy to pursue a wider range of source markets.

For independent hotels, the first hit to your business will likely amount to a large number of cancellations both for rooms and events. For guest rooms, think creatively by offering guests a few options including a credit note or a welcome-back package. For meetings and events, liaise with event organizers to postpone the event instead of cancelling whenever possible.

The next step is to review your business mix and source market in detail to gauge the magnitude of impact. Review your geographic mix of source market and quickly work with marketing on a campaign to incentivize travelers from alternative source markets with existing demand.

Maintain cash flow and hotel operations. In times of economic crisis and major emergencies, most small and medium-sized enterprises fail to survive due to cash-flow disruption. The finance department can negotiate with the purchasing suppliers to extend the payment cycle or temporarily reduce the proportion of expenses.



The background of the page is a light gray with various mathematical formulas and graphs in a darker gray. Visible formulas include  $\frac{e^x}{x^2 - x^2} > 0$ ,  $\frac{1}{y^2} > x$ ,  $1 > x$ ,  $x < 1$ ,  $\frac{e^x + e^{-x}}{e^x - e^{-x}}$ ,  $a^n = 1$ ,  $\frac{e^x - e^{-x}}{e^x + e^{-x}}$ ,  $h(x) = e^{-x^2}$ ,  $\frac{1}{x} \sqrt{\sin x} = \sqrt{16 - x^2}$ ,  $\lim \cosh$ ,  $\pi$ ,  $2\pi$ ,  $-2\pi$ ,  $- \pi$ , and  $e^{-1}$ . There are also several graphs, including a sine wave, a cosine wave, and a bell curve.

# TRUST

## Your Automated RMS

Hotels with an automated revenue management system (RMS) are far better positioned to adapt and respond early to all possible outcomes and leverage their data to create a single source of truth. Now more than ever, your business needs competitive rate intelligence and precise forecasting, and the best way to prepare for future uncertainty is by being certain about your own business strategies under any condition.

### Get the most from your RMS during uncertain times:

- ▶ Proactively and thoughtfully adjust demand in your RMS in accordance with the level of impact you observe in your local market.
- ▶ Avoid making gut-instinct or emotional decisions and focus on analytical strategic approaches to pricing.
- ▶ Continue to carefully monitor and adjust any demand overrides implemented.
- ▶ Run what-if analysis and A/B testing on any new pricing or promotional tactic.
- ▶ Pay close attention to your competitive price positioning rules and exclude competitors driving down rates or displaying erratic pricing behavior.
- ▶ Rely on advanced automation for the onward distribution of competitive pricing, deployment of room-type overbooking strategies, and reporting to key stakeholders.

The winning equation for uncertain times is human expertise paired with machine learning. Human analysis, interaction, input, and problem-solving are still vital to the revenue management process. Revenue managers must trust their AI but also take a proactive approach to ensuring they read and understand the signals of data coming in from their source markets and future looks and books.

With an automated RMS performing the more time-consuming tasks, revenue managers are enabled to focus more on forward-looking strategy and recovery plans. An RMS is not meant to replace the hotel revenue manager. It's meant to empower them.



## KEEP CALM & Stay Healthy

Throughout history, the hospitality industry has weathered tough periods but continues to prove its resilience. Although we can't press the restart button on 2020, we can definitely launch into repair mode now.

Do not implement anything you might regret later. Rather, take a long-term view of what is best for your business, not just for the next few months, but for the next several years. Be flexible and adjust your strategy as the situation evolves. Although cash flow is king during demand downturns, hoteliers should invest in future opportunities in their people, processes and technology to gain a competitive advantage in the good times to come.

The long-range, macroeconomic outlook is something to be optimistic about. The Brookings Institute predicts a rapid expansion of the middle class over the next 10-plus years. A growing middle class means more money spent in experience-related areas, like travel. This in turn will support a doubling of international air passengers by 2037, as estimated by the International Air Transport Association.

We at IDeaS have been deeply saddened by the lives lost to this outbreak and wish to send our best wishes to our clients, friends, and team members affected by this unfortunate situation. The rapid response of hotel groups to protect the health of staff and guests and to take various actions to support the first-line medical teams has been heartwarming to see.

As COVID-19 continues to take its toll on the global hospitality and travel community, we urge hotels to maintain a rational, data-driven focus over your revenue management and business operation.

***The future of our industry is bright, and better, healthier days lie ahead.***

IDeaS, a SAS company, is the world's leading provider of revenue management solutions and advisory services. Combining industry knowledge with innovative, data-analytics technology, IDeaS creates sophisticated yet simple ways to empower revenue leaders with precise, automated decisions they can trust.

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