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Exploring the impact of economic downturn and method to increase hotel sales department revenues

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Part One

Introduction

The downturn in the economy can be seen daily as the headlines of newspapers and television news stories. This has affected so many individuals and businesses. Furthermore, economist and news outlets project the situation to get worse. The hospitality industry is not exempt from this; in fact it is one of the markets that have been significantly affected. When people and companies are watching their spending, travel is one of the first things to go. Additionally, when our President is asking companies to cut back on travel to preserve jobs and benefits it makes it even harder for tourism to exist. The hospitality industry has addressed this in order to keep the millions of people employed.

The U.S Travel Association and industry leaders have met with President Obama to release statistics about the economic contribution of meetings and events and have created a response about "false accusations against legitimate travel activities (Chandler &Keefe, 2009)." However, hotels have to work smarter and harder to gain business. The group and transient sales department has seen a significant decline in meetings and events that are taking place. Moreover, competition is fierce because of the amount of hotels in any given market. Companies have cancelled events even with knowledge that they will owe the hotel a large sum of money per their contract, just so the public image is not negative.

This paper will examine past cases where a crisis has affected the hotels sales departments in terms of revenue and how this is dealt with. The main goal will be to project what a sales department can do to work through this downturn and come out still with rate integrity and a good property image. Past analysis of group and transient sales will need to be looked at carefully to see the change in this current economy as well as trends in revenues when a similar crisis has occurred.

Purpose

The purpose of this paper is to evaluate how hotel sales are affected by the weak economy and determine a business plan for hotel sales departments to survive through the current economic downturn. The goal is to suggest ways that the sales department can increase revenues and survive through the downturn to come out ahead of the competition. Suggestions will be provided to, in particular, the sales departments of hotels to continue to increase revenues despite travel being down in the United States and internationally. In doing so, it will be important to discuss how down economies have an impact on the group and transient business. It is imperative to realize that working through these situations is necessary to ensure that your organization can survive.

Justification

On average a hotel sales department makes up 80% of the revenues achieved (T. Blair, personal communication, January 30, 2009). The function of this department is so important to keep all employed. Without group and transient travel, other departments would not be needed. In a situation like we are faced with today, the sales department is even more critical to the outcome of each individual hotel. Therefore, it is important to analyze revenue production during the down economy and identify the impacts this may have on the hotel. To gain or maintain market share, a hotel sales department must utilize creative sales efforts to win business over the competition. Analysis of previous crisis that hurt the hospitality industry will help us to identify ways that a sales department can do just that.

Constraints

Past research on hotel sales through a downturn economy is found by examining the travel industry after 9/11. This crisis did have a major impact on revenue and production, but we did not have our government discouraging travel. In fact, the opposite occurred; Americans were encouraged to go about normal business activities, including traveling to show terrorists nothing can discourage Americans or damage the United States economy. Then Congress passed two bills that offered monetary assistance to the tourism and hospitality industry, which helped with marketing that encouraged individuals to travel (Villarreal, 2003). This limits how past research can be used to determine how hotel sales departments will survive through a downturn economy. There was much more government support in 2001 for the travel, tourism, and hospitality industry then there has been to this point of 2009. The research that is identified will be limited in giving suggestions for survival because it is not the same situation for the industry with this economic downfall as it was after September 11, 2001 terrorist attacks.

Glossary

Revenue Per Available Room (Rev Par)	A performance metric that is calculated by multiplying average daily rate by occupancy (ask.com)
Average Daily Rate (ADR)	Used to measure hotels pricing scale; derived by dividing actual daily room revenue by the total number of available of rooms (Travel Industry Dictionary)
Occupancy	The percentage of hotel rooms occupied during a specific time period, omitting rooms not available (Travel Industry Dictionary)
Market Share	The volume of sales, expressed in a percentage, achieved by one company in a specific geographic area compared to all sales of similar products or similar companies (Travel Industry Dictionary)
Competitive Set	A group of hotels that a particular hotel identifies as their main competitors (M. Imire, Personal Communication, June 23, 2009)
Crisis	A situation in which an organization (hotel) is faced with the prospect of a fundamental change, usually sudden and unforeseen, which threats to disrupt and overturn prevailing philosophies and practices (Henderson, 2007)
Hotel Sales Department	The department in a hotel that is responsible for booking group or corporate transient business (Kotler et al, 2006)
Economic Tourism Crisis	Tourism industry is faced with crisis of a change in the economy (Henderson, 2007)
Rate Integrity	Rate Integrity is keep the integrity of your brand so when the economy turns around you do not have a difficult time raises prices again (Hotelmarketing.com, 2009)
Revenue Management	The methodological approach to allocating a perishable or fixed inventory to the most profitable customer (Kotler et al, 2006)

Part Two

Introduction

The recent downturn in the economy has caused major damage to many industries and the hospitality and tourism industries are definitely not exempt. The corporate meetings markets alone accounts for a one hundred and seventy five billion dollar industry that is challenged by the decrease in meetings that many corporations are having because of their attempt to cut back on costs (Financial-Meetings, 2008). In many of the areas in United States hotel occupancy percentage have dropped to an average of fifty percent over the last year and a half (Miralles, 2008). Additionally, the industry has seen a decrease by approximately four percent in demand making it difficult for the industry to sell against the competition with not as much business to go around (Verret, 2008).

There is a major focus on how hotel sales departments can help to regain historical revenues once saw despite the downfall in the economy (Thompson, 2008). The most recent troubled economy is not the first hardship experienced for the industry and will not be the last because the economy is cyclical (Salerno, 2008). It is important to ensure that the hotel sales department is equipped with what is needed to 'sell into' the downfall and still come out ahead of the competition each time an economic crisis occurs (Verret, 2008). The hit to the economy is a chance for hotel sales departments to understand how to work harder for business and ensure that marketing dollars spent are really worthwhile (Salerno, 2008).

Most of the research that we have on what happens to hotels in a bad economy is realized in the aftermath of the September 11, 2001 terrorist attacks. This was a very different crisis than the one that America is experiencing now. However, the survival of the hospitality industry, particularly the sales departments during the downfall in the economy in 2001 can provide knowledge to hotels to understand survival techniques for the current economic crisis. The terrorist attacks in 2001 caused a very real revenue deduction for many hotels across the United States and travel declined greatly. There was an extreme drop in occupancy, average daily rate, and RevPar as examined below. This significant decrease is very similar to what is happening in the current economic downfall. Therefore, processes that hotel sales departments used during this downturn will provide some guidance on what hotels can do currently to survive and be ahead of the competition.

Literature Review

In the beginning of 2008, the United States really began to see a significant downfall in the economy, which dropped business levels for the hospitality and tourism industry. Therefore, everyone was analyzing budgets and travel expenses were cut for many companies and organizations. The occupancy percentage in hotels saw decreases for nineteen of the past twenty three months, which shows that the economy was just in the beginning of a downfall (Smith, 2008). Throughout the rest of 2008 and into the current year, hotels have seen major drops in average daily rates and RevPar. This caused hotels to be concerned about how they will survive this current downfall and anticipate how they will rebuild the lost revenues associated with the drops in these areas. It is predicted that by 2010, hotels will see, on average, a twenty five percent decline in RevPar, which is the largest drop in approximately seventy years (Woodworth & Walls, 2009). The average daily rate will see a decrease by seven percent from earlier years (Smith 2009). These combinations of the decrease will make it hard for some hotels to survive.

Prior to the current economic situation, the hotel industry had several great years. Demand was high, which made it difficult to understand the impact of what a downfall may have on the industry, and the importance of realignment efforts to recover. In the past, hotels have seen an average of four percent increase in revenues. This will not be the case during the downturn, when hotels are seeing decreases for the first time in several years (Woodworth, 2009).

Going into the recession, the room supply was on the incline and the demand and room rates were beginning to decrease (Smith, 2009). This is disastrous combination for the industry as there is more competition in the market, but less business to gain.

The current downturn in the economy is similar to the one experienced in the aftermath of the terrorist attacks in 2001. The American people were scared to travel because of the attack on the country, which caused the hospitality and tourism industry to see a decline of 30% in revenues (Taylor & Enz, 2002). Based on the market examined, there was a loss of ten to twenty five percent in occupancy and five to fifteen percent in average daily rates. In addition, RevPar estimates were down sixteen to thirty percent in comparison to what the industry had experienced in previous years (O'Neill & Loyd-Jones, 2001). As a result of these declines, the hospitality industry struggled to regain revenues as they are in the current economy. This rapid reduction in travel was sudden, happening almost overnight. Therefore, major efforts were used to get people to begin their travels, despite their fears, to prove that our country could not be harmed by terrorist.

Hotels revenues were affected greatly; however the industry had one advantage that would make it simpler for them to come out of that downturn. The supply growth had already been on the downfall since 2000, and many owners were not prepared to expand building in the aftermath of September 11, 2001 (O'Neill & Lloyd-Jones, 2002).

There are similarities between the current economic downfall and the one experienced after the September 11, 2001 terrorist attacks. Conversely, there are great differences. Similarly, during the current economic situation and the state of the economy after 9/11, we realize that occupancy, average daily rate, and RevPar have seen a great decrease. Moreover, it is impossible for a hotel to continue to gain revenue as they had in years leading up to each of these recessions. In both economic situations, it is important for the hotel to begin to understand how they will regain their opportunities to create demand for travel and win over the heavy competition.

This is where the similarities very much end. There are two different crises at hand in each of these situations. The current crisis is related to an economic crisis that is cyclical and happens every several years. There are many contributors to the cause of this economic crisis that has caused the American economy to slowly slip into a downfall. With the 9/11 crisis, it was caused by a terrorist attack that scared travelers from continuing to support the highly profitable industry. In the immediate aftermath, it was recommended by the government not to travel, but as it was deemed safe to continue travel again, Americans were encouraged to pick up their normal travel behavior. The

United States government did not want the terrorist to see the impact that was had on the country. In Washington, D.C recovery was planned to ensure that the hospitality industry did not continue to suffer by collaborating with the local government and promoting business re-opening in the area and marketing this area as a highly travelable location (Stafford, et al, 2002). In the current economic downfall, the government indicated that travel budgets should be cut in order to preserve revenues for corporations and organizations alike.

In addition, the room supply growth that we are experiencing now is far greater than that experienced during 2001 (Smith, 2009). This makes the ability for a hotel to recover from decreasing revenues less achievable because of the amount of increased competition. In 2001, the room supply growth had already been decreasing because of preceding overbuilding (O'Neill & Loyd-Jones, 2001). With this decrease, it was much easier for hotels to begin to thrive relatively soon after based on the declining amount of competition.

After 9/11, there was a rapid recovery in the amount of business that hotels began to see, but with the current situation, we know that the recovery will likely be much slower and will take more time for the hotels to be profitable as previous years (Smith, 2009). The outlook of other industries is affected more than in past economic downturns. With that in mind, it will be hard to encourage travelers to re-gain their past levels of travel (Smith, 2009). After 9/11, industry experts agreed that the growth of hotel occupancies would be on the rise again beginning in 2002 (O'Neill & Lloyd-Jones, 2001). Whereas, with the current situation the outlook is bleak and it is agreed that it will take much longer to regain the previous revenues the industry experienced (Smith, 2009).

Hotels were faced with an incredible challenge in the aftermath of the terrorist attacks of 9/11 to rebuild and drive business. For instance, increased security at the airports and increased cost of fuel making it difficult for hotels to return to being profitable. These increased expenses are still seen in the current downturn (Smith, 2008). However, after 9/11 they were able to regain revenues fairly quickly by focusing efforts to increase travel again in the United States.

Lessons can be learned from the way that the industry reacted to the decrease in travel after 9/11. This can be used to give focus to strategies for what we are doing in the current economy. Hotels were able to refocus on response to customers' needs during the 9/11 downturn and ensure that they were providing services that were in line with these needs. Additionally, hotels reduced any operational costs that were unnecessary (Taylor & Enz, 2002). Marketing was refocused regionally and locally to ensure that guests would not have to travel far or at a high cost to use their services. While rates were often discounted to attract customers, many hotels were more likely to focus on rate integrity. Marketing plans were not revised, but instead re-directed to the appropriate travelers that would gain the most of what they had to offer.

With any downturn, operational costs do somehow need to be cut in order to operate on the least dollar possible while still maintaining customer satisfaction. In most cases after 9/11, hotels were more focused on reducing workers hours than laying off personnel. It was a better business decision to have these employees around when the market turned to avoid losing valuable associates to the competition (Taylor & Enz, 2002). Also, this minimized corporate training expenses that would have been incurred when the demand increased and a full staff of employees was required. The hospitality industry partnered with local government officials to determine a marketing plan to regain important customers to their areas. The hotel sales departments focused on the business that would still need their services. For example, government officials whom needed to travel and needed lodging to deal with the aftermath of the terrorist attacks (Yu & Armoo, 2002).

In dealing with the current economic downturn, revenue management will be important to guide pricing and keep rate integrity while still winning market share. It is important to understand what the competition is doing with their pricing to ensure that you are in line with what the competition is offering, while still maintaining brand value (Herman, 2008). By doing this, it will increase the chances for a hotel to gain market share and win over the competition. While focusing on a hotels pricing strategy, it is also important to understand how to decrease expenditures that are not profitable. However it is imperative to realize that marketing efforts are still very valuable during a down economy. The rate integrity element is important because it is too difficult to drastically raise rates when the economy turns around if slashes of room rates are too drastic. The long term plan of the pricing structure should be kept in mind (Kimes, 2009).

In addition to a well established revenue management plan, a well established marketing plan should be in place to overcome the shortfall of the decreased demand.

The marketing budgets should not be cut as this may be the most important aspect for regaining business to each individual property. If a hotels marketing plan is ahead of the competition, they will earn their share of the market and prosper when the economy turns around. The most natural reaction would be to cut prices, but this is not always the best strategy. While you will have to cut some prices based on what the competition is doing, you develop your plan to only reduce prices when absolutely necessary. There are other important aspects to marketing that is agreed upon by industry experts to be more effective than reducing room costs. It is important to determine valuable additions to what you offer that cost very little to the hotel. This might be by adding incentives to your customers to choose your location over the competition.

In addition, it will be important to drive business in market segments that you traditionally are not used to. If you recognize market segments that financially stable, these segments now become business that you want to gain. In the downturn economy, if you are able to gain these market segments and make them loyal, a hotel will be able to come out of the downturn ahead of the competition.

The hotel sales department plays a great part in ensuring that a hotel is performing well. It is estimated that thirty five percent of the customer base of a hotel is made up of those identified by the sales department (Kotler, et al., 2006). The sales professionals have the ability to create demand for the hotel even in a downturn in the economy. The efforts to gain new, retain existing, and please all hotels clientele is the most important task of this department. The hotel sales department is responsible for such a large percentage of the hotels success. Therefore, it is worthwhile for a hotel to create a team effort between this department and the revenue management team to increase RevPar for a hotel by four to 12 percent (Mainzer, 2009). The alignment of these two departments will ensure that the hotel is gaining their share of the business over the competition and come out of a downturn in a winning position. The revenue management team will be challenged with discovering new ways of dealing with the sales team because of their continued knowledge of the competition. The addition of value to the loyal customers that send repeat business to the sales team, should be recognized in a downturn economy through collaboration of the two departments in a hotel (Kines, 2009).

Part Three

Introduction

The current downtown in the economy has affected the hospitality industry with major impact. Research has shown that this is not the first downturn that the hotel industry has faced and it will not be the last as the economy is cyclical. A successful hotel sales department will win market share in a downturn economy and come out ahead of the competition. In this section, the summarized results of the research will be combined with recommendations for the industry to survive through this economic downfall.

A business plan will be created as a suggestion to hotel sales industry professionals showing how to go about creating a winning environment. If the hotel sales department is successful in their efforts then the entire hotel will see increased revenues The department accounts for such a large part of the overall performance of a hotel. In the past economic downturns, sales departments have implemented plans that enabled them to be successful in selling against the competition while still maintaining rate integrity and their customer base.

Conclusions

The decline in occupancy, average daily rate and RevPar during the most recent downturn in the economy has made it very difficult for hotels to survive. As in past downturns, it is important to understand what it will take to ensure that revenues are not affected so greatly. The hotel sales department plays a major role in ensuring that they continue to win clients and come out ahead of the competition. Business levels have dropped off greatly and the supply growth is at an all time high, making it even more difficult to ensure that market share is gained.

In the aftermath of September 11th, hotels were driven to regain profits and worked with local government authorities to make this possible. While we are living through a very different crisis, it is possible to work through the government to ensure that corporation and organizations are still advised and permitted to include travel and meetings into their budgets. While there are no current travel restrictions, the government has made mention that travel budgets should be cut preventing companies and organizations from creating a negative image when the entity may be struggling. However, travel is always going to be necessary to make business deals and provide incentive to top performers. The encouragement of this appropriate travel will help the hospitality industry regain revenues and re-stimulate the one hundred and seventy-five billion dollar industry.

The room supply in our current economy is growing when it should be decreasing to coincide with the downturn in the economy. This is a challenge that sales departments will have to come face to face with. There will have to be strategy in place to deal with the growing competition. In the aftermath of 9/11, there was a decrease in room supply. Therefore, this is a new focus for the industry and makes in even more important to understand the strength of gaining market share.

In the economic times we are faced with now, there is little positive outlook on when the industry will be able to turn around. This may be a much longer battle than it was with 9/11 when the industry seemed to turn around rather rapidly. This information provides us with the knowledge that the longer and harder we work in this environment, the better off hotels will come out in the end. The hotel sales department will have to re-gain the basics of the intelligence of a sale and ensure that every piece of business is treated like gold.

The suggestions from industry experts suggest that now, even more than ever before, the sales department should be working closely with the revenue management team in order to create a competitive pricing strategy that does not just include dropping rates, but also entails a marketing plan to offer other incentives that do not affect the hotel revenues. This collaboration will ensure that prices are in line with what the competition is doing, but still understand the mission of the brand. Together the two teams can determine placement for selling group and transient travel to effectively win their fair share of the market demand.

Conclusions

Preparing for an economic downturn is very difficult because it can happen quicker than hotels can be prepared for. However, if a plan is not in place, the hotel will not survive through a downturn economy and revenues will be lost. Additionally, during the upswing, the competition will come out ahead and the hotel will lose valuable customers. The best recommendation is to ensure that a valuable business plan is in place to ensure that business is not being lost.

We know that by keeping room rates constant or by increasing slightly year over year there is an advantage in gaining RevPar, with will keep business within the hotel as opposed to losing it to the competition (Smith, 2008). If we keep our rates constant and do not drastically cut our rates, we will win the business over the competitor when the economy is on the upswing (Mahmaud, 2009). This has to do with the fact that it will be hard to raise rates again in a good economy when our customers are used to paying lower rates. While it may be easy to gain occupancy in a down economy by lowering our rates, we will not be able to gain fair market share because of the lowered ADR (average daily rate). Hotel revenues may be down, even though the hotel may have higher occupancy percentages as opposed to the competition. In a down economy the most important revenue management technique to adhere to is to gain market share and gain the repeat business of our customers. The hotel sales department should be working closely with the revenue management department to ensure that they win market share weekly. By winning market share, a hotel's group sales and transient business is selling ahead of the competition.

It is understand that the process of focusing on potential new business is a difficult one because of the amount of time consumed by sales managers in managing the bookings already on the books (Brudney, 2009). It is a difficult time in dealing with cancellations and attrition within already existing contracts. Therefore, an important task is to control what the sales managers can while not being let down by uncontrollable factors, such as cancellations and group attrition (Financial-Meetings, 2008). Keeping focus on controllable factors, such as, meetings and industries that are booking in these hard economic times will enable the sales managers to thrive through the downturn with a positive outlook. The inevitable consequences of a poor economy are not something that can be controlled (McKinnis Consulting Group, 2008).

Recommendations

The business plan should be implemented by gathering the entire hotel sales team and revenue management department and ensuring that pricing strategy is appropriate as compared to the competition. This organization should involve a positive attitude and the understanding that it is imperative to focus on the controllable factors during the economic downturn. The organization must realize that cancellations and a decrease in new business is a possibility. Some of these results are uncontrollable. By realizing these positive efforts, the focus will be on what the department collaboration can do to win market share as opposed to focusing on how the downtown has affected the hotel.

Within this business plan, the rate and brand integrity should be at the forefront. Hotels need to realize that coming out of a downturn, major rate reduction will result in lost business because they will not be able to increase rates with loyal customers to the extent that there is demand.

Additionally, training of the sales staff is important so there is an understanding within the sales department of exactly how to close a sale. There will be a very competitive environment and every hotel brand will be competing over the same business. Henceforth, a well trained sales staff will understand the best methods to try to win the sale every time.

It is important for hotels to follow the suggestions of industry experts whom have researched the effects of various economic cycles on the industry. Hotels will find that a well trained and seasoned sales staff will help mitigate short term losses and position the hotel for long term success. If a hotels group and transient sales are in line with where they need to be by maintaining rate integrity, there will be little minimal focus on increased rates when economy turns around. The sales department may account for approximately eight percent of the hotel revenues (T. Blair, personal communication, January 30, 2009). Therefore, it is extremely important to understand how selling through a economic downturn makes the difference for the hotel.