

Rate Parity in the time of COVID



By Rhett Hirko, Global Vice President, Revenue Optimization

“Desperate times call for desperate measures.” How profound was Hippocrates? As hotels reopen from regional shutdowns, at Preferred Hotels & Resorts we consider the question as we review the tactics to battle the business challenge. We’ve found there are primarily two schools of thought: distribute prices equally or with disparity.

The gains in equitable price distribution

We’ve found hotels that reopened earlier have, in large part, been practicing rate parity with a great deal of success. For these hotels, a far greater portion of bookings are being made direct. Ensuring that the hotel safety and security policies are updated on-line whilst offering a value proposition for the drive-in traveler has reaped great rewards, especially given that this is a far less expensive channel than others. Loyalty redemption also is a key reward; offering a further discount exclusive to loyal members suggests value in their membership (don’t lose sight of unique loyalty programs offered by OTAs as well, a matching value proposition). We’ve found a major success in this program with participating hotels.

Supporting direct bookings through rate parity can help ensure trust and loyalty. It also allows those customers that may wish to expend points through their OTA to do so, a tempting opportunity to capture this business while offering a competitive alternative by booking direct. Given the challenge that exists with today’s cash flow, profitability helps with direct bookings too. A reminder that OTAs will always outspend in marketing – it is wise to work with them, not against them, to attempt to capture more direct share. Price parity helps *both* succeed. We’re finding hotels with a successful strategy are booking around 60% more bookings direct than through an intermediary.

The disparity in rate disparity

Comparatively, hotels that are reopening later seem to be playing catch-up. In many situations we find a wholesale dumping of opportunity through OTA channels. They are booking – but at a price. Considering that much of this business is at a price point that can be 20% or more higher than booking direct, the offset must be huge. They also don’t reward brand loyalty; rather, the value proposition is that – underscoring the property as a commodity and negatively impacting the hotel’s image long term. When it’s time to increase rate, this will be harder to do on an OTA – a channel that does not offer a brand experience. At Preferred, we find hotels practicing rate disparity in this manner having less than 10% direct bookings. I’m hard pressed to understand how they will manage to any near level of their pricing in 2019 – and their bottom line must be taking it hard.

An analogy

When faced with a natural disaster, terrorist incident or – in this case – global pandemic, strategic decision making will reap rewards in the long term. It’s not easy. It may be best to think about how *you* shop for *your* home groceries today. Do you use Instacart to have your groceries delivered, or do you go to the grocery store? Instacart is tempting – they offer touch free service, live shopping consultation and home delivery. But do you get all the discounted options that are offered at the grocery store? What if there was an alternative item on sale, are you able to take advantage of that? Today stores

Rate Parity in the time of COVID



By Rhett Hirko, Global Vice President, Revenue Optimization

have adopted cleaning guidelines with staff cleaning carts while you wait; plastic security panels at check out; hand sanitizer and even provide free masks and have security guards mandate policy, all to keep you safe. This allows you to have your shopping experience safely while getting the items you need. Brand value (in person shopping) supplants the higher priced option (online delivery).

My guess is that companies such as Instacart, in the long run, may fall to the wayside like Peapod (which, in a touch of painful irony for them, pulled out of some market deliveries in February) unless they are able to provide a more equitable product line (choice, price) to the store. For now, they're more expensive.

In summary

Why price any of *your channels* more expensively? These days, customers have an endless supply of shopping methods. Whether they are on your hotel site, calling your Brand operator or an OTA (or, even a travel agent – what a novel idea!), they want your business. Let them book it how they best like to shop. For now, they're more likely to book direct. In the long run, you'll retain their trust and get them as long loyal customers – however they book. Rather than Hippocrates, consider the wisdom of Lois McMaster Bujold: *"Events may be horrible or inescapable. Men have always a choice - if not whether, then how, they may endure."*