

# Room Blocks and Red Flags: How Hoteliers Think

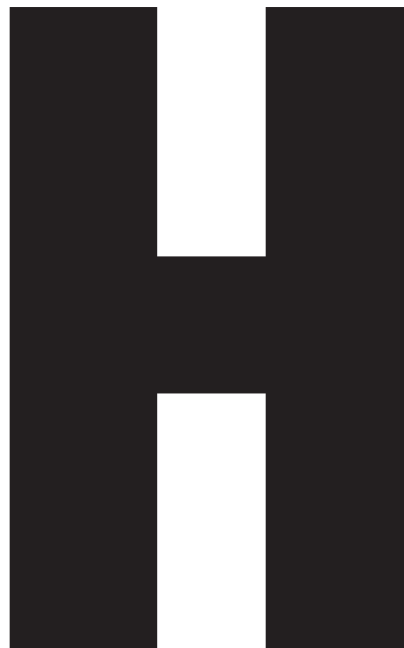
BY  
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**MeetingsNet's exclusive survey** of hotel sales and marketing executives reveals how and why hotels are changing the way they evaluate meetings business and allocate room blocks.

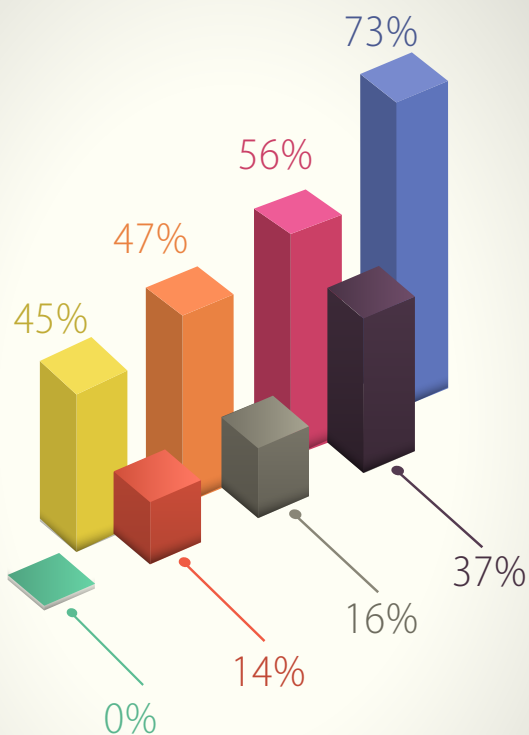
Research assistance provided by Hospitality Sales & Marketing Association International. Research underwritten by onPeak.





**Hotel sales teams** evaluate your meeting business a lot differently now than they did in the years following 2008, when the economy tanked and travel of all kinds took a nosedive. With hotels looking at a lot of empty rooms, meeting planners had plenty of leverage. All of that has changed as the recovering economy has fueled demand and very little new hotel room inventory has come online. It's the old supply and demand story, but with a couple of new twists.

What are the new twists and what do they mean for you? Read on.



1

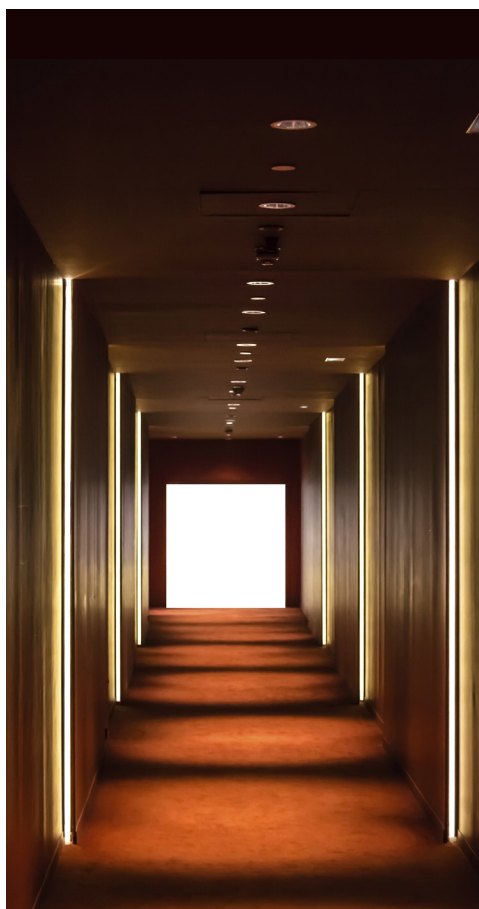
## Most Important Factors in Evaluating Group Business



## Key Findings: Red Flags, Sticking Points, Decision-Makers

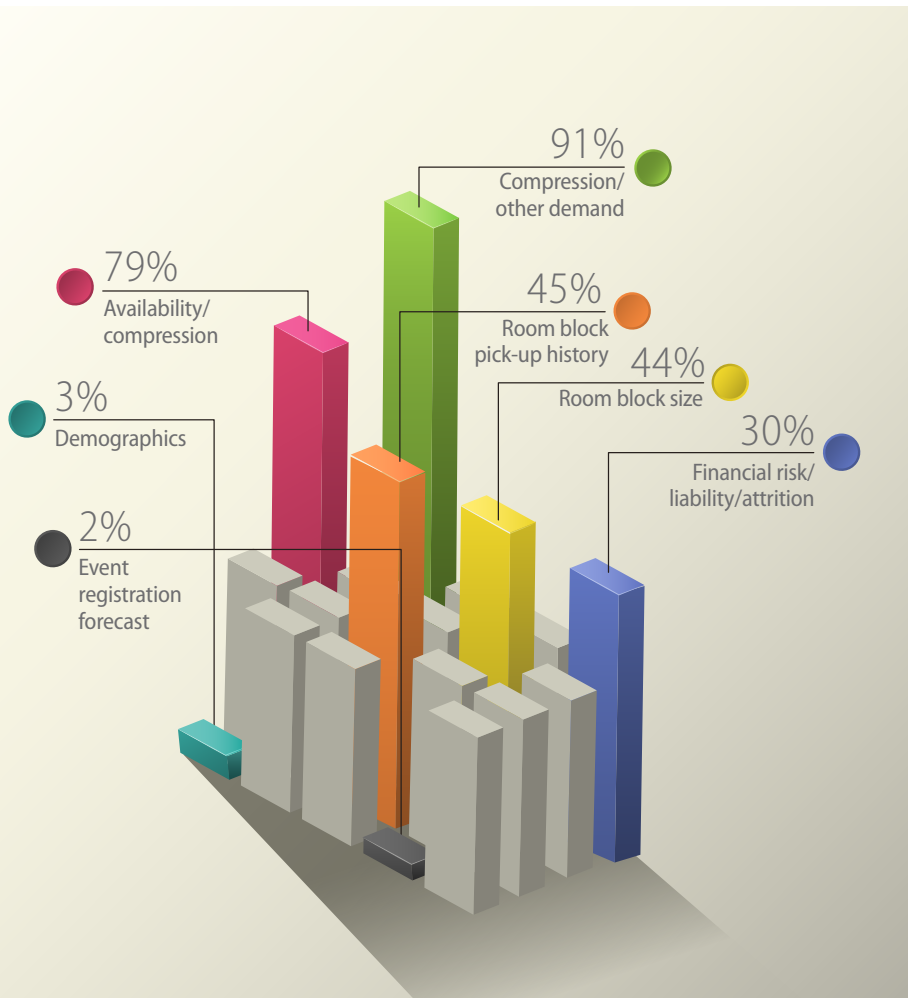
In September 2014, MeetingsNet undertook a survey of key hotel sales, marketing, and revenue managers to explore the key factors hotels use to evaluate and contract room blocks for meetings. The majority of the survey respondents were either sales managers or directors of sales and marketing at city hotels. Forty-three percent worked at properties with 201 to 500 rooms, while 38 percent represented properties with more than 500 rooms. Here is their perspective on meetings business today:

- Nearly three out of four respondents (73 percent) said that room rate is one of the most important factors when evaluating group business. A majority of respondents (56 percent) also cited compression/other demand as an important factor in evaluating group business. (Compression happens when there's more demand than supply available.) *See chart 1, above.*
- A large majority of respondents (91 percent) consider the dates of the event in giving a planner the most favorable rate for group business, and 79 percent also consider availability/compression. *See chart 2, page 4.*
- The biggest red flag for 68 percent of respondents is concessions that are lengthy or unrealistic, while 67 percent point to the ratio of sleeping rooms to meeting space. *See chart 3, page 5.*



“Hotel owners aren’t necessarily in the hotel or hospitality business. Many are in the money business.”

— Julie Mullins Scuras, IHG



• During contract negotiations, respondents said, the key sticking points are financial risk/liability/attrition (75 percent), room rate concessions (63 percent), and cancellation (58 percent). *See chart 4, page 6.*

• 70 percent of respondents will reject business for a block of rooms if the room rate demands are unrealistic. Additionally, the majority of respondents will also reject business due to compression/other demand (54 percent) or the ratio of sleeping rooms to meeting space (51 percent). *See chart 5, page 7.*

• A large majority of respondents (85 percent) indicated that driving profits is highly significant in today’s marketplace. *See chart 7, page 10.*

• The majority of the respondents said that the ultimate decision-maker in accepting meeting business is not the property’s revenue manager but the sales director or manager. *See chart 6, page 8.*

## Getting Under the Hood

These findings validate the old adage that the three most important variables in negotiating meeting business are rates, dates, and space, with the added note: now more than ever. That’s because of a sea change in hotel ownership since the economy tanked. Many major hotel companies have gotten out of the hotel ownership business and are pursuing an “asset light” strategy where they focus on franchise and hotel management services, with real estate and financial companies now owning a much greater percentage of hotel properties.

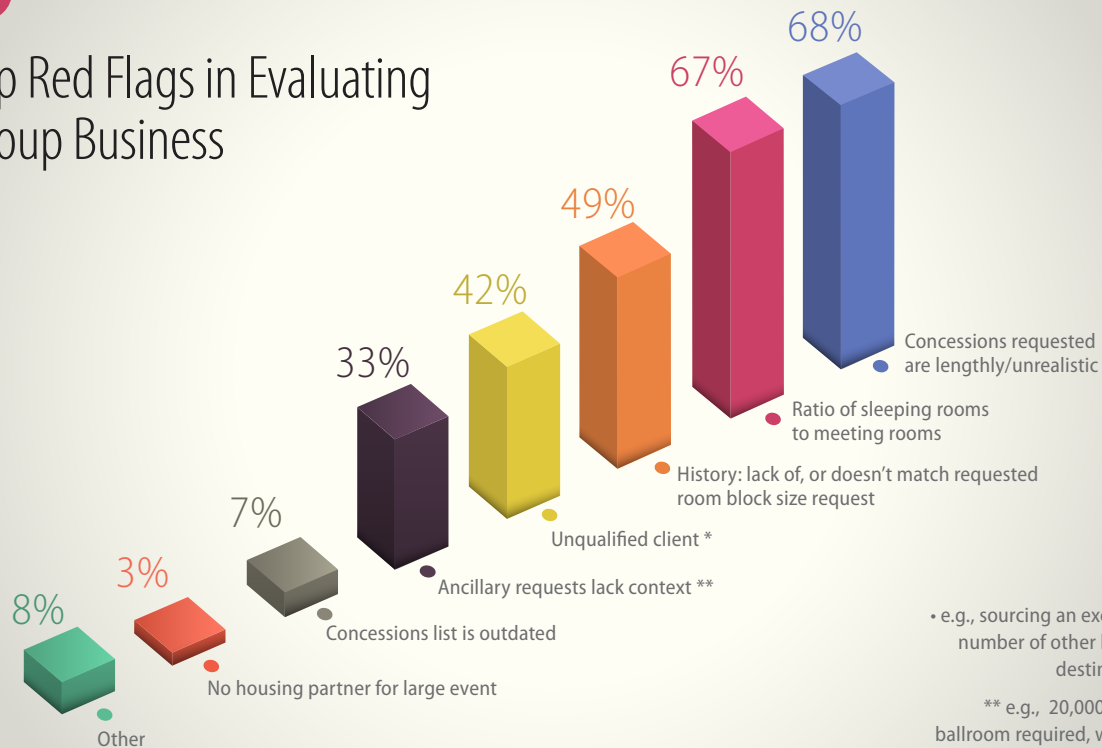
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## Top Factors in Offering Favorable Room Rates



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## Top Red Flags in Evaluating Group Business



“Hotel owners aren’t necessarily in the hotel or hospitality business. Many are in the money business,” explains Julie Mullins Scuras, key account director, America sales, InterContinental Hotels Group. “There’s more focus on evaluating the profitability of a piece of meeting business.” And thanks to the availability of “big data,” hotels can apply yield management strategies as never before to optimize revenue.

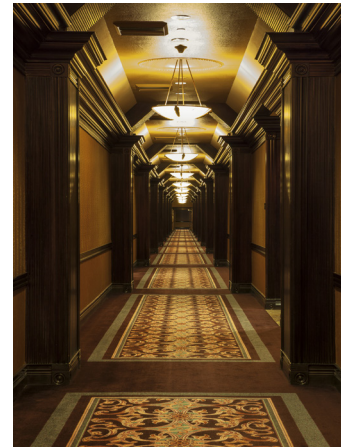
No tool is more widely used in this regard than the STAR report, a monthly report released by STR that shows a hotel’s performance in comparison with its local, competitive set of properties. The report shows occupancy, revenue per available room (RevPAR), and average daily rate for a particular property, and the averages for the competitive set. Also available is an index

“In a good operation, there’s 100 percent collaboration between the sales team and the revenue manager.”  
— Kevin Boland, Starwood Hotels and Resorts Worldwide

showing which hotels are capturing their fair share of the market and which are doing better or not as well.

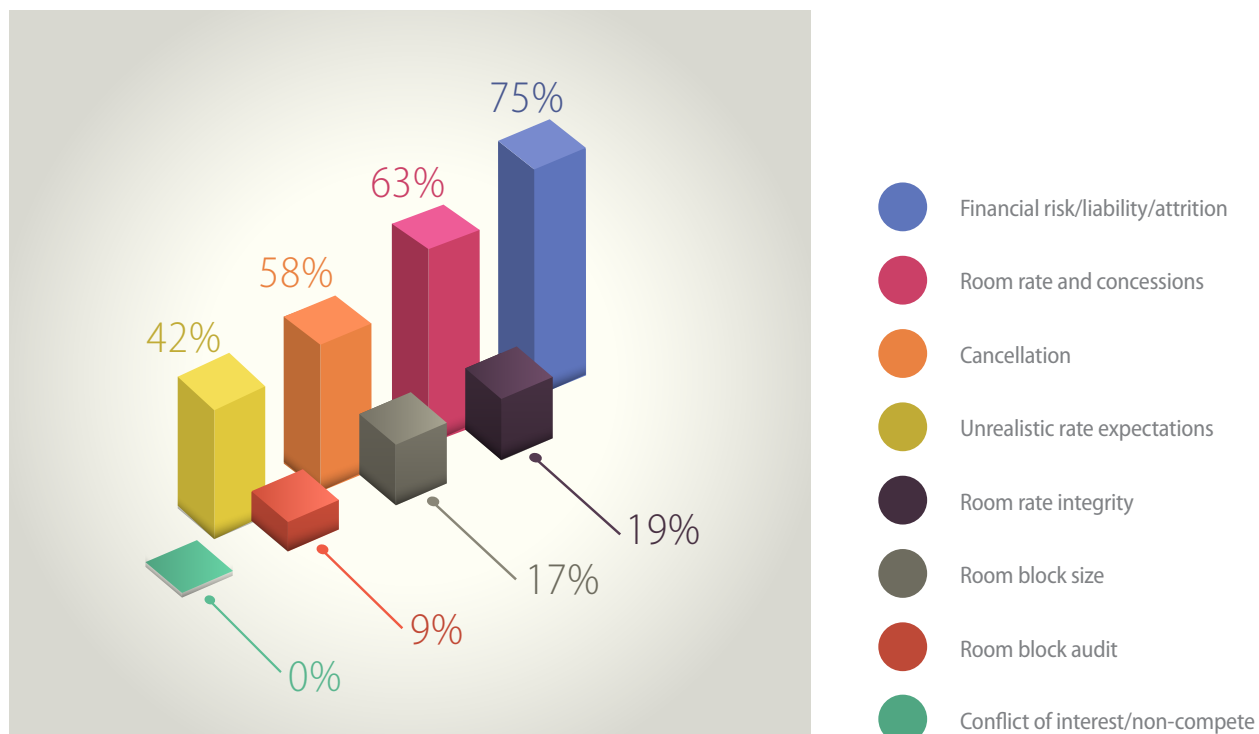
“There’s more pressure on revenue directors to benchmark room rates with the comprehensive data provided by the STAR reports,” says France Langan, CHA, director of sales and marketing, Holiday Inn Chicago–Mart Plaza River North. “No one wants a hotel owner knocking on their door asking why the property down the street got a better average hotel rate that month.”

With room revenue accounting for 60 percent to 80 percent of a hotel’s revenue stream, room rates have always been a critical factor. The difference is that now there is both increased pressure to optimize group revenue and the data tools to do it in real time. As Kevin Boland, director of sales, San Diego Metro Market, Starwood Hotels and Resorts Worldwide, puts it: “Room rates are like the steering wheel in the car, and when you look under the hood you can find a lot of important stuff controlling that wheel.”



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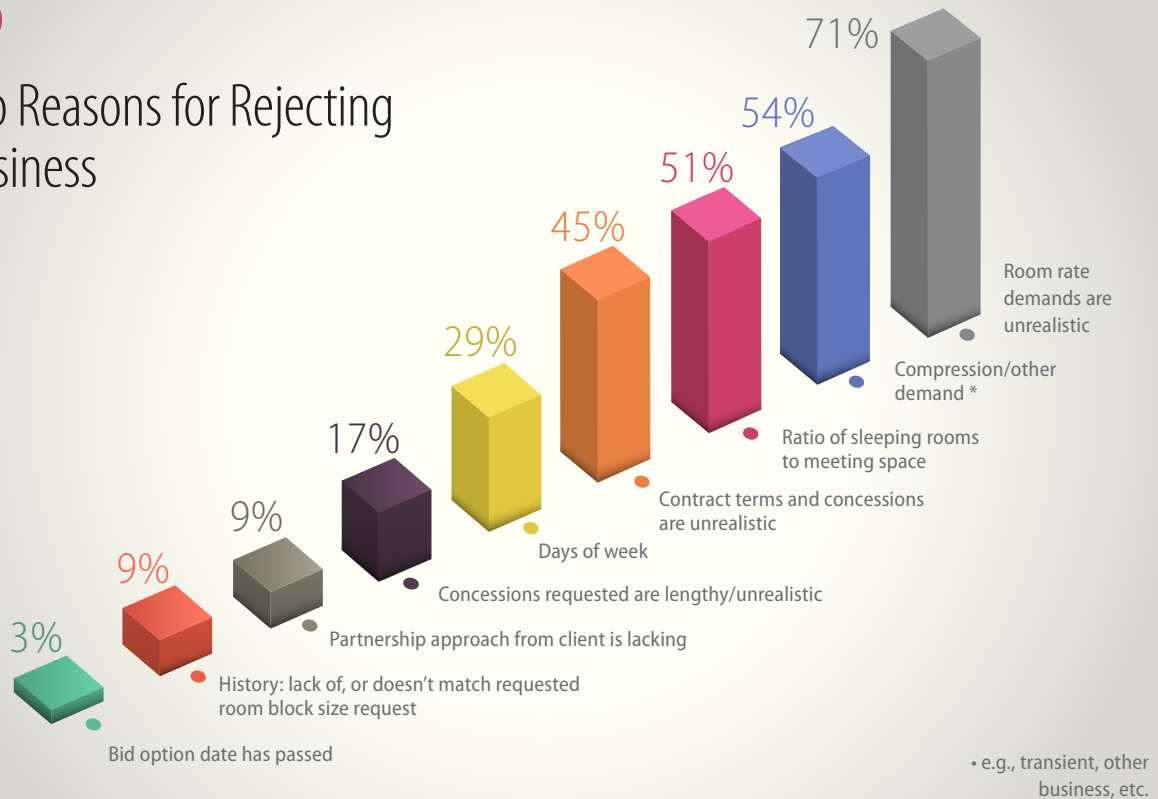
### Key Sticking Points During Negotiation





5

## Top Reasons for Rejecting Business



### Concessions Out of Control

The biggest red flag for the majority of our respondents are planners asking for unrealistic concessions, topping (by a hair) the ratio of sleeping rooms to meeting space, which traditionally has been by far and away the critical metric in evaluating business (see chart 3, page 5).

But what's happened in the past four years may have caused hoteliers to see concession demands as a bigger problem, Scuras says. "During the recession and recovery period, crazy concessions became, unfortunately, more and more the norm," she notes. "The one-comp-room-for-every-50 hotel rooms booked routinely got reduced to 1-for-40 or 1-for-30, for example, with some groups asking

### Methodology

Methodology, data collection, and analysis was provided by Penton Research, the research arm of Penton, parent company of Meetings-Net, with the primary objective of assessing the factors hotels use to evaluate and contract room blocks.

Invitations to participate in this study were distributed by OnPeak, a GES Global Company (which underwrote the study) to its hotel manager database, and to the members of the Hospitality Sales & Marketing Association International. By September 26, 2014, Penton Research received 184 completed surveys.

To encourage prompt response and increase the response rate overall, a live link to the survey was included the e-mail invitation to route respondents directly to the online survey. Each respondent was afforded the opportunity to enter a drawing for one of five \$20 VISA gift cards.

## Ultimate Decision-Maker

for comp suites per rooms booked as well.”

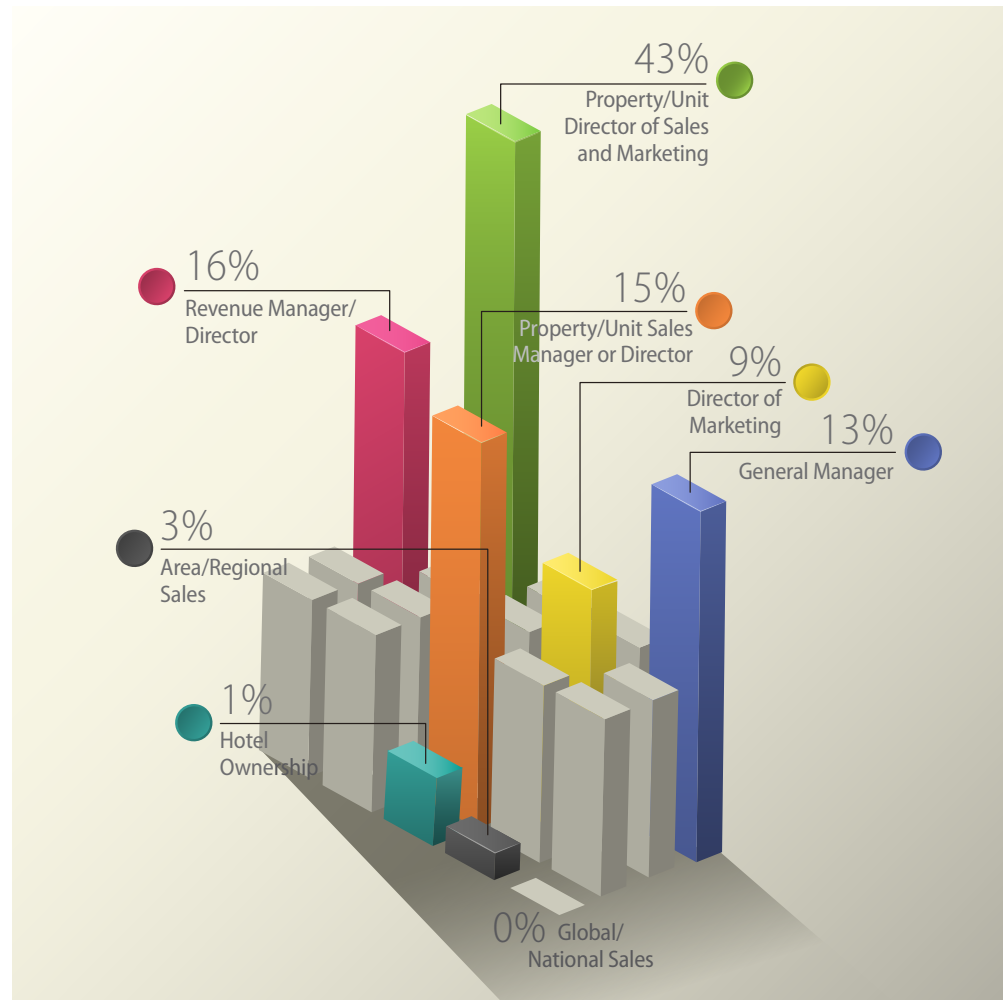
Another factor driving the concession craze is that “a lot of times planners who use third parties will let the third parties ask for the world,” Langan says. Planners should ask for what’s important to their particular meeting, not give a laundry list, he says. “Parking may be more important to your group than a business center.”

The big trouble with concessions is that they can drive the average room rate down for the group, a huge problem these days when a property’s average room rate and RevPAR are being benchmarked against its competitors.

### Looking at Compression in a New Way

Compression happens when there’s more demand than supply available. Given the jump in demand and lack of new supply in recent years, it’s not surprising that our survey shows compression playing a big role in decision-making when it comes to group business. The twist here is that in the old days, planners who could book a large block of rooms at a property or in multiple properties in a citywide, could use that volume as leverage in rate negotiations. But volume these days doesn’t always translate into rate discounts.

“Some large conventions cause compression to a city. These conventions say they’re bringing the business to the city so why should they be penalized by paying a higher rate?” Scuras says. “On the other hand, hotels could be selling those rooms at that higher rate to transient and corporate groups.” She points to the National Restaurant Association’s show as an example of how possible



solutions can be worked out. The show draws some 70,000 attendees to Chicago every May, causing huge compression in the city. Because ultimately the hotels would rather keep the show in the city, the group got them to agree to a cap on rate hikes for attendee sleeping rooms.

The bottom line for many groups is that hotels often would prefer smaller blocks, leaving a larger number of rooms for transient business paying a higher rate, Scuras says. “Unfortunately, having more hotels in the block adds to costs for groups.”



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## The Role of Housing Companies

Housing companies are caught in the middle of these market changes. “The shift in the market has translated to tougher hotel contract negotiations with hotels tightening room blocks, giving higher rate escalators than in previous years, and demanding more stringent contractual terms,” says Keri Kelly, senior director of hotel industry relations for onPeak, a GES Global Company. “I respect and understand hotels need to protect their business interests, however it can be challenging when long-time clients—repeat business for hotels—are unable to secure their desired room blocks despite proven room-block history.”

Citywides, especially well-established conventions or trade shows, “are in it for the long haul, whether it is a buyer’s or seller’s market,” she continues. “It has to be a balancing act between both parties and carefully measured throughout these cycles.”

She says onPeak is focused, in this seller’s market, on getting out RFPs as early as possible. “RFPs are targeted and specific—matching the right hotel product to group demographic, concession requests, preferred terms—and most important, providing history and realistic expectations. Our primary goal is to ensure a fair and effective contract for our clients while working with our hotel partners to help meet their needs as well as ours.”

## Ultimate Decision-Maker?

The majority of survey respondents said that the ultimate decision-maker for accepting meetings business is the sales director/manager/team. Only 16 percent of respondents said that the

## 6 Ways to Navigate the New Market

- 1. Be sure to fill the room blocks that you do get:** The most common obstacles respondents perceive that planners have to filling their hotel room blocks are an overcommitted room block (67 percent), ineffective room-block management/inventory adjustment (55 percent), and that event registration is not tied into housing (52 percent).
- 2. Consider the pros and cons of a higher room rate for a larger block of rooms in fewer hotels or a lower room rate in a larger block of hotels.**
- 3. Understand compression issues and weekly stay patterns and how these affect room rates:** Well over half of respondents feel their clients only “sometimes” or “rarely” understand seasonality/the impact of compression, while almost three-quarters of respondents said their clients only sometimes or rarely understand the impact of weekly stay patterns. A one-day shift in your pattern can make a huge difference.
- 4. Book as early as possible and be flexible with dates:** 91 percent of respondents consider the dates of the event in giving a planner the most favorable rate for group business.
- 5. With the sophisticated tools for managing and predicting revenue, hotels are looking years out.** Ask hotels to give you their blackout dates to help you consider your options more effectively.
- 6. Be realistic and strategic with concession requests, and be cognizant of requests that will lower the hotel’s average daily rate for group.**

revenue manager or director makes the final decision. This seems counter to what meeting planners have been hearing for years, and counter to the reality of the increased importance of revenue management in driving profitability. So where does the truth lie? “I think it could very well be due in large part to the bias of respondents,” suggests Holiday Inn’s Langan. “Sales people might not want to portray themselves as not the ultimate decision-

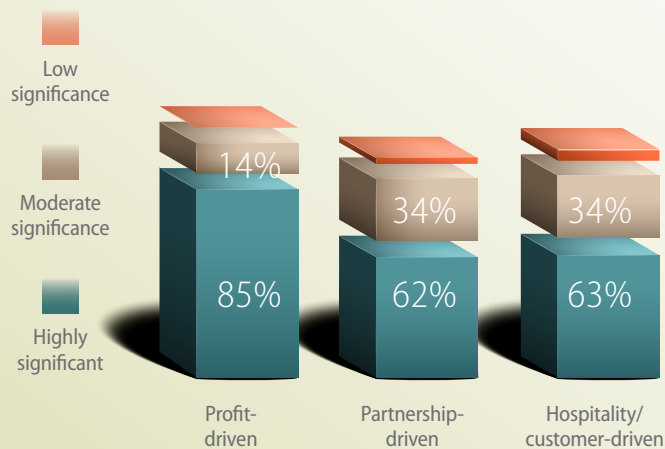
makers, but the fact is that for many properties revenue managers have so much power that the relationship aspect of a piece of group business, whether the group has booked repeat business, often takes a back seat.”

Scuras has a different take: “The revenue manager is responsible for studying the pricing model. As far as group business goes, the sales committee or team will figure out how to work out group pricing for room rates, food and beverage, and so on. The revenue manager steps in if the meeting being evaluated can’t meet revenue needs.”

Boland sums it up this way: “It’s not what I do or advise, but lots of time it’s easy for salespeople to put the blame on the revenue manager when the negotiating gets tough. But in a good operation, there’s 100 percent collaboration between the sales team and the revenue manager.”

7

## Marketplace Drivers



**Sponsored by** onPeak, a GES Global Company, is a leading hotel booking solution for the events industry. The company’s unmatched customer service, operational excellence, and award-winning marketing connect clients and customers with the right accommodation solutions for their events to maximize room blocks and strengthen hotel and destination relationships. onPeak’s creative business strategies are delivered with a personal touch and global reach, elevating the event housing of more than 100 clients who span an array of industries.

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