Regent hotel: case study on pricing and weaknesses

The Regent Hotel Case Study

1. Pricing Strategy Review – Key Issues

There are several key issues which must be considered when determining the pricing strategy for a hotel. The main variables that affect hotel room pricing in general will include transient demand at the location, for example during festivals, conferences or major tourist occasions, and also whether it is currently high, low, or ‘ shoulder’ season. Weekly arrival or departure patterns can also affect occupancy: there may, for example be many spare rooms on a Thursday night, or even worse, excessive demand on one night of the week, due to overlap from arriving and departing guests, which means that rooms may end up being empty on the surrounding days. For example, if guests staying from Monday to Friday choose to also stay Friday night, it may make the rooms unsuitable for people who want to stay over the weekend, thus leaving a shortage of rooms on Saturdays.

Equally, the ratio of guest rooms to meeting, or conference, rooms can dictate pricing strategy, as if the hotel has plenty of guest rooms, but little conference space, it may have to offer excessive discounts to attract conference guests, but in the opposing scenario, it may be able to charge a premium. In a similar vein, a hotel with a successful history of holding meetings or conferences, and thus a good reputation in corporate circles can also command a premium for business functions. The potential for incremental revenue from the restaurant and bar areas should also impact on pricing, both for the rooms and the facilities themselves. Should a hotel have a high proportion of guests using its additional facilities, then it can use these revenues to subsidise the cost of the rooms, thus enabling it to lower prices and thus attract more guests, who will ideally also use the facilities. However, should the facilities be of poor quality, or too expensive, then the price of the rooms may have to be raised to compensate for the shortfall. A final factor to consider is the potential for risk to the hotel, such as the likelihood of cancellations or damages, which can be mitigated to some extent by including cancellation and attrition clauses in the terms and conditions, provided these are made clear to guests at the time of booking.

Pricing strategies at major brand hotels also tend to fluctuate more with the market, because of their size and power. Serlen (2004) reported that many of the major brands lowered rates dramatically during the recent period of difficulty for the industry, but these rates were unprofitable, and thus the hotels couldn't maintain those rates and be profitable. As such, most hotels chose to keep rates more stable, sacrificing some revenue during that period, but meaning that they won't be the same pressure of profitability once demand has returned. However, a Datamonitor Company Profile (2005) of the market in which the Hyatt and other premium hotels, such as the Regent, operate; has shown that pricing power within the market is currently heavily influenced by the hotels' capacities, and also the pricing decisions of competitors. The downturn in the travel industry has led to a competitive environment where supply currently outstrips demand. Therefore the market as whole, ranging from low costs leisure up to the premium end in which the Regent operates, is currently dictated by the pricing strategies of competitors. Competitors' actions generally within the current climate could cause supply growth to outstrip demand growth, which could be disastrous for the Regent, and thus attention should be paid to these considerations.

Specifically for the Regent, the refurbishing of the conference rooms has enabled it to offer high quality corporate facilities, which should enable it to charge a premium for conferences, over and above what other hotels in the region can charge. However, the opening of the Edinburgh International Conference Centre could lead to problems for the hotel, as it appears of offer far superior facilities to that which the Regent, or indeed any hotel, could possibly offer. Therefore whilst the Regent can still hope to gain significant conference revenue, especially during high season when the EICC will be in great demand, it may not be able to rely on conference revenue as a key stream. However, given that delegates who use the EICC still need to be accommodated, the Regent could potentially attempt to negotiate with the Edinburgh Convention Bureau to become the hotel of choice for conferences using the Centre, and this would enable it to charge the desired premium.

With regards to the additional facilities, such as the bar and restaurant, given that there is currently not a high proportion of guests using these facilities, it is difficult to justify using them in the pricing strategies of the rooms, as reducing the price of rooms to attract more guests will not necessarily greatly affect the revenue generated by the facilities. However, it is important to review the pricing strategy of the bar and restaurant, to ensure that these are not priced so high as to drive away guests, and possibly including some meals in the price of the room could be a good way to increase demand for the rooms and the additional facilities, whilst potentially also slightly increasing the price.

Finally, it is important to determine whether the customer dissatisfaction is being caused by pricing at all, and also whether other hotels in the city are pursuing aggressive pricing strategies which are taking demand away from the Regent. If this is the case, then it may be necessary to accept some short term losses in order to fight back and prevent the Regent Hotel losing so much business that it has a stigma attached to it, and is unable to attract any guests back, however this is likely to be a drawn out and costly process.

2. Front Office Operation – Key Issues

There are several other key issues concerning the hotel that it is vital to assess if the brand is going to be developed and revitalised in the eyes of the public. Using the SWOT analysis (Appendix One) Firstly, it is important to determine which of the first three identified weaknesses are causing the decline in customer satisfaction, and ensure that remedying this is given highest priority in the coming refurbishment. However, regardless of which of the identified weaknesses are most responsible for the sharp decline in customer satisfaction, it is vital that all weaknesses are addressed as part of the refurbishment and handover process in general.

Firstly, the outdated financial and reporting systems need to be replaced with an integrated solution, which connects all the different departments, and facilitates the transfer of information between the various heads of the departments. This system should enable food and beverage staff to input orders directly into the cash registers in the bars and restaurants, and these orders should then be transferred directly onto the relevant customer's bill, perhaps using the customer's signature, or their room key, as proof of their identity and room number. A similar system should also be put in place for the mini bars, enabling housekeeping to update the charges on the mini bar bills as they replenish the bars every day.

An improvement to the reporting system would also enable staff to check the usual and predicted levels of occupancy when taking group bookings, thus enabling them to charge the relevant amounts for each period. This would help avoid the potential for offering groups too great a discount during busy periods, and would also help let staff know to when offer larger discounts, such as during quiet periods. Equally, sales and financial data and targets for Front Office, Sales and Food and Beverage could be shared across the three departments, so that each department knows what other departments are doing, and also what all three departments are aiming for. This would enable each department to maximise its own contribution to the hotel’s revenue, without adversely affecting the performance of the other relevant departments, for example Sales would know not to offer a cheaper meal option to large groups if the Restaurant is likely to be very busy for that period.

The question of modernising and replacing the linen appears to be the main reason for the refurbishment, and Andrew Brennan should have this well in hand. However, no mention has been made of plans to refit or expand the laundry facilities, which is a key consideration, as not only does it appear to be affecting guest satisfaction, but it is also resulting in insurance claims, which drive up costs, and thus put a drain on the hotel’s profits. The whole laundry operation should be reviewed, and its capacity should be increased so that, not only can it handle the demands placed on it by the normal running of the hotel, but also to ensure that it has sufficient spare capacity to complete all laundry requests to a high standard and on time.

The threats arising from the slow tourist industry, and the loss of bookings from Milton Hotels could be problematic, however provided the customer satisfaction issues can be resolved, word of mouth, together with a successful refurbishment and re-launch of the hotel should be sufficient to attract customers back, and the number of bookings appear to be picking up, as can be seen from the trendline on the room occupancy graph in Appendix Two. However, the final main issue to be addressed is that of revenue maximisation. As can be seen from the financial analysis (Appendix Two), only in the highest season does the hotel come close to completely using all its rooms, and occupancy often drops below the 60% mark. Equally, even in the busy months of June, July and August, total revenue realised is less that half that if all the rooms were charged at their full rate. As such, it is vital to reassess the marketing and advertising used to attract people during high season, as not only should rooms be as fully occupied as possible, but they should also attract as high a price per room as possible, and currently this is not the case.

References

1. Serlen, B. (2004) *Hotel Programs Grow.* Business Travel News; Vol. 21, Issue 15, p. 1.
2. Datamonitor Company Profiles (2005) *Global Hyatt Corporation – SWOT Analysis.*

Appendix One: SWOT Analysis

Strengths

- Beautiful Victorian architecture

- Excellent location with fine views.
- Modern food and beverage areas
- Prestigious banqueting and conference areas.

Weaknesses

- Outdated financial and reporting systems.
- High need for modernisation of rooms and replacement of linen.
- Inadequate laundry facilities.
- Lack of revenue maximisation across all departments.

Opportunities

- Potential to house EICC guests.
- Growing importance of Edinburgh.
- Chance to completely refurbish and re-launch hotel.

Threats

- Declining customer satisfaction.
- Slow tourist industry.
- Loss of bookings from Milton Hotels.
- Lack of customers using dining facilities.

Appendix Two: Financial Analysis

2003	Room nights	Rooms Sold	% Occ	Revenue	Max Rev	% Rev

Jan	5890	2709	46%	£168, 364. 35	£1, 050, 125. 00	16%
Feb	5320	2554	48%	£156, 585. 74	£948, 500. 00	17%
March	5890	3711	63%	£247, 004. 16	£1, 050, 125. 00	24%
April	5700	3249	57%	£201, 567. 96	£1, 016, 250. 00	20%
May	5890	4300	73%	£303, 967. 78	£1, 050, 125. 00	29%
June	5700	4617	81%	£342, 622. 57	£1, 016, 250. 00	34%
July	5890	4476	76%	£319, 944. 48	£1, 050, 125. 00	30%
Aug	5890	4889	83%	£392, 635. 59	£1, 050, 125. 00	37%
Sep	5700	4446	78%	£361, 148. 58	£1, 016, 250. 00	36%
Oct	5890	4418	75%	£301, 749.	£1, 050, 125.	29%

				40	00	
Nov	5700	3648	64%	£230, 334. 72	£1, 016, 250. 00	23%
Dec	5890	2297	39%	£136, 855. 26	£1, 050, 125. 00	13%
2004						
Jan	5890	2827	48%	£185, 111. 96	£1, 050, 125. 00	18%
Feb	5510	2755	50%	£182, 281. 00	£982, 375. 00	19%
March	5890	3829	65%	£262, 516. 24	£1, 050, 125. 00	25%
April	5700	3477	61%	£262, 665. 63	£1, 016, 250. 00	26%
May	5890	4653	79%	£339, 296. 76	£1, 050, 125. 00	32%
June	5700	5016	88%	£407, 349. 36	£1, 016, 250. 00	40%
July	5890	4830	82%	£357, 903.	£1, 050, 125.	34%

				00	00	
Aug	5890	5007	85%	£420, 688. 14	£1, 050, 125. 00	40%
Sep	5700	4731	83%	£398, 870. 61	£1, 016, 250. 00	39%
Oct	5890	4653	79%	£330, 502. 59	£1, 050, 125. 00	31%
Nov	5700	3933	69%	£256, 077. 63	£1, 016, 250. 00	25%
Dec	5890	2768	47%	£169, 124. 80	£1, 050, 125. 00	16%
2005						
Jan	5890	3122	53%	£206, 707. 62	£1, 050, 125. 00	20%
Feb	5320	2979	56%	£200, 665. 44	£948, 500. 00	21%
March	5890	4123	70%	£288, 445. 08	£1, 050, 125. 00	27%
April	5700	4104	72%	£271, 315.	£1, 016, 250.	27%

44	00