BENCHMARKING: COMPARING DISCOUNTED BUSINESS RATES AMONG LODGING COMPANIES

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Yield management systems focus on the appropriate amount and depth of rate categories to maximize revenue for lodging properties. However, it is the interaction between reservationists and consumers that determines the room price. This study identified and compared different levels of discounting among various lodging companies. The findings should assist managers in benchmarking the current discounting practices in lodging companies.

KEYWORDS: *yield management; rate; lodging; benchmarking.*

Many yield management (YM) systems focus on the appropriate amount and depth of rate categories to maximize revenue for a hotel (Escoffier, 1997). YM systems examine the pricing structure of the market and then determine the positioning strategy for a particular lodging property based on demand, competition, and cost. Shaw (1992) argued that the missing link of a successful YM system is the consumer perspective. It is the consumer who should be the focal point for strategic and tactical pricing decisions, rather than basing it purely on environmental factors. Shaw's perspective of including the consumer in a successful yield management system begins to focus on the humanistic side of YM rather than relying on the pretransactional aspect. Another aspect of the humanistic side of YM is the interaction between the reservationists and consumers.

This interaction will actually determine the final room price. The technical component of a YM system provides only the rate structure and procedures for reservationists to follow, but the individual reservationist is responsible to implement the system. Jones and Hamilton (1992, p. 91) felt that a leading barrier for any successful YM system was at the implementation rather than the conceptual stage. These researchers interviewed managers who responded by saying that employees were the most difficult part of implementing their system. Some of the recorded remarks included the following:

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"Front-office clerks do not appear to understand what we are trying to do."
"Reservationists take bookings of the wrong segments."
"We are still hung up about rack rates."

Reservationists are required to identify the proper rate category for each guest. Normally, rate categories are divided into three segments: business, group, and leisure. Business travelers will usually make a reservation immediately before a trip, whereas leisure travelers will make their reservations weeks or months in advance. Leisure travelers, who book months in advance, tend to pay lower rates than business travelers, who are only able to book days in advance. Rates tend to be more inelastic toward the arrival date compared to bookings that are made months or weeks in advance. Orkin (1988) and Knutson, Malk, and Schmidgall (1995) pointed out that the displacement of future, high-rate transient reservations booked by business travelers, with those that are paying lower rates, must be a carefully made decision. At the same time, when strong or late-booking demand is unlikely to occur, rooms should be offered at a discount to attract the leisure traveler.

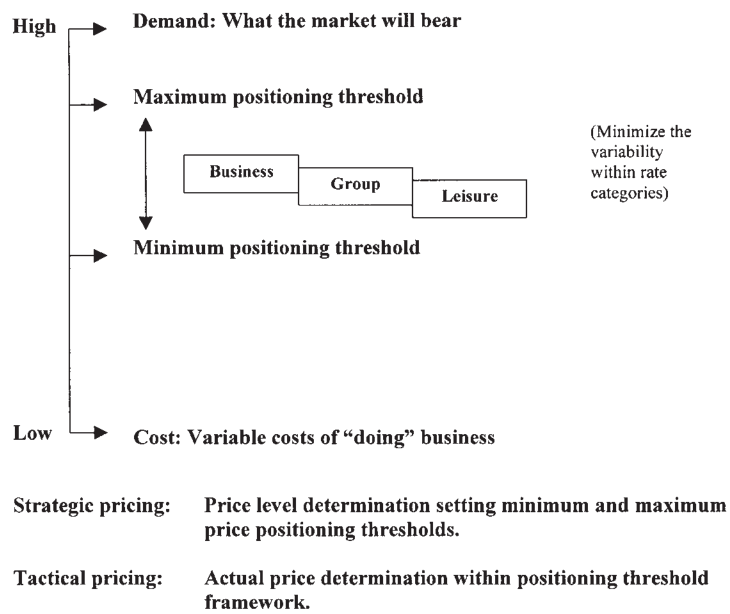
In addition to leisure, group, and business traveler rates, there are additional discounts such as AAA, credit cards, and frequent stay programs (Wilson, 1992). A reservationist must not only determine whether a traveler is either on business or pleasure, but also determine if the traveler should receive any other discounts or special packages.

The proper placement of guests into rate categories is the key to a successful yield management system (Donaghy, Mcmahon, & McDowell, 1995; Rogers, 1997). Rate integrity of a YM system can be measured in many ways. For example, a hotel can examine if the proper rates and discounts are given to its guests, analyze the bookings of the reservationists, verify any discounts provided to guests, and monitor the denial rate of potential guests (Jones & Hamilton, 1992). Denial rate is when the guest refuses to stay at the hotel due to the price of the room or is a no-show for a particular rate category. Knowing the denial rate may assist in forecasting the number of rooms needed in each category and in determining the appropriateness of the pricing structure. Two essential questions arise when placing guests into the different rate categories: (a) should the consumer be given a discount and (b) the discounted amount.

BENEFITS OF RATE INTEGRITY THROUGH BENCHMARKING

Shaw (1992) developed the price/positioning framework model that shows how individual hotels' pricing structure fits within the marketplace. The model indicates that there is a range of pricing that a consumer will pay for a particular hotel as long as it is within their pricing threshold. The model acknowledges that there are strategic and tactical pricing strategies. Strategic pricing determines the minimum and maximum price positioning thresholds, whereas tactical pricing determines the positioning framework. Operationally, the tactical pricing strategy is executed during the interaction between the reservationist and the consumer,

Figure 1
Price/Positioning Rate Category Framework Model



Source: Adapted from Shaw (1992).

whereas the strategic pricing strategy is ascertained at a higher managerial or corporate level.

Limiting the variability between the maximum and minimum positioning threshold within each rate category will stabilize the rate. In other words, stabilizing the rate categories will increase the hotel revenues and accuracy of the forecast. This will also ensure that customers who qualify for a specific rate category will be given the same rate if everything else is equal rather than allowing individual guests to negotiate their rates. Figure 1 illustrates a modified price/positioning framework model that emphasizes minimizing the thresholds among the rate categories (Shaw, 1992).

Discounting of rooms normally occurs when supply exceeds demand; however, other factors such as company policy, culture, training, and monitoring may also influence the discounting of rooms (Cross, 1997). Willingness of reservationists to negotiate rates may be determined not by supply and demand factors, but by other influences, such as training, employee attitude, and the amount of follow-up that managers are providing to the reservationists. Another issue is evaluating the amount of discount that the competitors are providing to their guests within the same locality. Customers seeking discounts and rate integrity of lodging companies are the determining factors in identifying how much is too much or not enough. Benchmarking is a means for lodging companies to determine the "how much" and identify the best practices within their own locality and industry (Camp, 1995). Knowing the practices of the competitors assists in the development of company policies and training procedures to ensure that the best practices are being implemented and continuously updated.

Benchmarking is simply studying the practices of other organizations to become the best of the best. Camp (1995) argued that benchmarking assists organizations in setting goals and developing realistic expectations for themselves. In addition, benchmarking assists in the establishment of adapting superior practices into their own companies (Camp, 1995; Petrick, Scherer, Wilson, & Westfall, 1994). It is widely known within the lodging industry that reservationists will discount the rate if they believe that the guest resists paying the quoted rate. However, the breadth and depth of the actual discounts given to guests by individual lodging companies have not been examined within the literature.

Another advantage of benchmarking is requiring an organization to critically review its own practices to compete in the marketplace. Performed correctly, benchmarking is a continuous, evolving process of measurement and practices, not just metrics, in an effort to become and stay the best. It is a fact-finding tool that can be used to assist managers in setting realistic goals to compete with the best rather than using imprecise intuitive estimates of setting direction. Camp (1995), Relihan (1989), and Rogers (1997) argued that the benefits of benchmarking include assisting those who are setting direction, establishing goals that are based on internal and external conditions, determining productivity based on comparative measurements, and becoming more competitive by determining the best practices for their company.

Critics believe that benchmarking rewards imitators rather than creators (Linsenmeyer, 1991; McSparran & Edmunds, 1995). Industries that are in the declining phase of their lifecycle need innovators to rejuvenate their industry. For example, American steel and automobile industries were devastated by foreign competitors due to their inadequate practices within the United States. These American companies were benchmarking each other rather than benchmarking from the international steel and automotive industries. McSparran and Edmunds (1995) argued that if inaccurate performance measures are employed, then poor results may occur. Another concern is that static benchmarks are used rather than continuously reviewing and updating the benchmarks practiced in an organization.

It is important to realize that benchmarks are tools, not the salvation of an organization. Each organization will have a unique set of constraints that may limit the use of benchmarks obtained from other organizations. However, benchmarking will assist in determining how much is too much or not enough (Tucker, Zivan, & Camp, 1987). It will never replace good managers, employees, products, or markets; however, it can assist the good to become better or even the best (Watson, 1992). Benchmarking requires us to ask why, how much, and where do we stand, rather than make decisions in an isolated environment.

PURPOSE OF THE STUDY

The purpose of the study is to investigate the following questions: (a) Are lodging companies discounting their initially stated business rates? (b) Is there a significant percentage difference between the initial business rate and lowest negotiated rate within lodging companies? and (c) Are similar lodging companies (based on their initial stated rate) different in terms of discounting percentages?

OVERVIEW OF RESEARCH DESIGN

The study examined 14 lodging companies in 17 leading convention cities for a total of 184 individual properties. Some of the lodging companies did not possess hotels within every convention city. These convention cities were randomly selected from the list found in "Convention Destination Images: Analysis of Association Meeting Planners' Perceptions" (Oppermann, 1996). The hotel companies are identified by an alphabetical letter to protect their identity. The lodging companies were selected by having properties in at least 40% of the cities. The study's results have been provided to the lodging companies with their information being identified on the tables and charts.

A script was used to determine if the hotels were willing to negotiate below their initially stated business rate. The initial script stated, "What is the business rate for a room for one night with two double beds on the _________." If the reservationist asked for additional information, it was provided before the initial rate was determined. The remainder of the script attempted to gain the lowest rate within the business category by negotiating with the reservationist. Hotels were called during a 2-day period. The callers requested a business rate for a room 21 days in advance. This should have allowed for the availability of multiple rate categories during this time period and avoided the inelasticity of the rate structure during the final days immediately before the arrival date.

LIMITATIONS OF THE STUDY

The projected occupancy rates were not known at the time of the study. This could have assisted in determining whether price was elastic or inelastic 21 days prior to the arrival date. Another limitation was that negotiated rates were only examined 21 days prior to the arrival date, and these rates could have changed either closer or farther away from the arrival date. Regarding sample size, only one inquiry was made to each individual hotel; however, the data were only examined by lodging companies (rather than by individual hotels).

ANALYSIS AND DISCUSSION

The demographics of the 14 full-service hotel companies used in the study are found in Table 1. The number of rooms by property per hotel company ranged from 173.54 to 818.47, with an overall average of 485.57. The business rate ranged from a low of $40 for an individual property to a maximum of $295. The overall business rate mean was $134.32, with Hotel Company E having the lowest

Table 1
Initial Stated Business Rates and Average Number of Rooms per Property for Hotel Companies

Hotel Company	Average Number of Rooms by Property	*n*	*M* ($)	*SD* ($)	Minimum ($)	Maximum ($)
A	192.29	17	94.11	33.46	40	175
B	302.93	14	145.64	34.84	109	250
C	742.57	14	175.00	43.54	99	250
D	358.76	17	112.22	27.53	59	161
E	173.54	14	79.06	34.15	42	175
F	818.47	15	171.73	50.62	110	294
G	779.31	16	158.50	27.94	109	205
H	565.13	8	166.88	53.29	129	295
I	358.92	12	118.83	35.35	79	204
J	303.54	14	86.36	42.05	54	200
K	571.00	17	132.29	36.16	79	199
L	521.50	8	173.00	32.32	129	225
M	688.64	11	182.09	39.94	95	219
N	448.43	7	127.71	29.35	95	169
Average	485.57		134.32	49.79		

mean of $79.06 and Hotel Company M having the highest with $182.09. The variability between the average number of rooms and business rates suggests that these two factors need to be examined during the analysis.

The majority of the hotel companies had at least 100% rate difference among their hotels. However, one of the hotels surveyed had a rate of $175, whereas another property had a rate of $40. Even when demand and location are taken into consideration, operating a disparity of over 400% indicates that at least one of their hotels represented a different market.

The next step in the analysis was to determine the rate integrity for the individual hotel companies. Over one third of the individual hotels maintained their rate integrity by refusing to negotiate their stated business rate, whereas nearly one fourth were willing to discount their rate by at least 21% (see Table 2). However, the variability among individual lodging companies was considerably higher than what was indicated by the mean. Hotel Company G had the highest rate integrity among all of the hotel companies with 81.3% of their hotels maintaining their rate integrity, whereas Hotel Company B had the lowest with 7.1%. It is important to be cautious with interpreting the rate integrity of lodging companies. At the time of the study, the occupancy rate was not known, nor was the projected rate. However, this limitation was minimized by obtaining rates from a cross section of convention cities and comparing similar lodging companies by their room rates and number of rooms.

The study defined rate integrity as the refusal to negotiate the rate once the reservationist had placed a caller into a rate category. The four hotel companies that had the lowest rate integrity (Hotel Company B, 7.1%; Hotel Company L, 12.5%; Hotel Company C, 14.3%; and Hotel Company E, 14.3%) also had a high percent-

Table 2
Percentage Discount by Hotel Companies

Hotel Companies	Discount Percentage														
	0		1-5		6-10		11-15		16-20		21-25		More than 25		
	N	%	*N*	%	*N*	%	*N*	%	*N*	%	*N*	%	*N*	%	Total
A	2	11.8	0	0.0	8	47.1	2	11.8	1	5.9	1	5.9	3	17.6	17
B	1	7.1	0	0.0	1	7.1	1	7.1	4	28.6	5	35.7	2	14.3	14
C	2	14.3	0	0.0	1	7.1	1	7.1	2	14.3	2	14.3	6	42.9	14
D	6	35.3	1	5.9	1	5.9	2	11.8	4	23.5	2	11.8	1	5.9	17
E	2	14.3	0	0.0	5	35.7	0	0.0	2	14.3	3	21.4	2	14.3	14
F	5	33.3	2	13.3	3	20.0	2	13.3	0	0.0	1	6.7	2	13.3	15
G	13	81.3	0	0.0	1	6.3	1	6.3	1	6.3	0	0.0	0	0.0	16
H	4	50.0	0	0.0	1	12.5	1	12.5	0	0.0	1	12.5	1	12.5	8
I	2	16.7	0	0.0	1	8.3	3	25.0	1	8.3	2	16.7	3	25.0	12
J	5	35.7	0	0.0	1	7.1	4	28.6	2	14.3	1	7.1	1	7.1	14
K	13	76.5	0	0.0	2	11.8	0	0.0	0	0.0	1	5.9	1	5.9	17
L	1	12.5	1	12.5	1	12.5	1	12.5	1	12.5	0	0.0	3	37.5	8
M	8	72.7	0	0.0	1	9.1	0	0.0	2	18.2	0	0.0	0	0.0	11
N	3	42.9	0	0.0	1	14.3	1	14.3	2	28.6	0	0.0	0	0.0	7
Total	67	36.4	4	2.2	28	15.2	19	10.3	22	12.0	19	10.3	25	13.6	184

age of discounts over 20.0%; 50.0%, 37.5%, 57.2%, and 36.7%, respectively. This indicates that a lodging company that has a pattern of low rate integrity may be more willing to provide discounts greater than 20%. Extreme discounting may also lead to uncertainty in forecasting rates due to the rate variability.

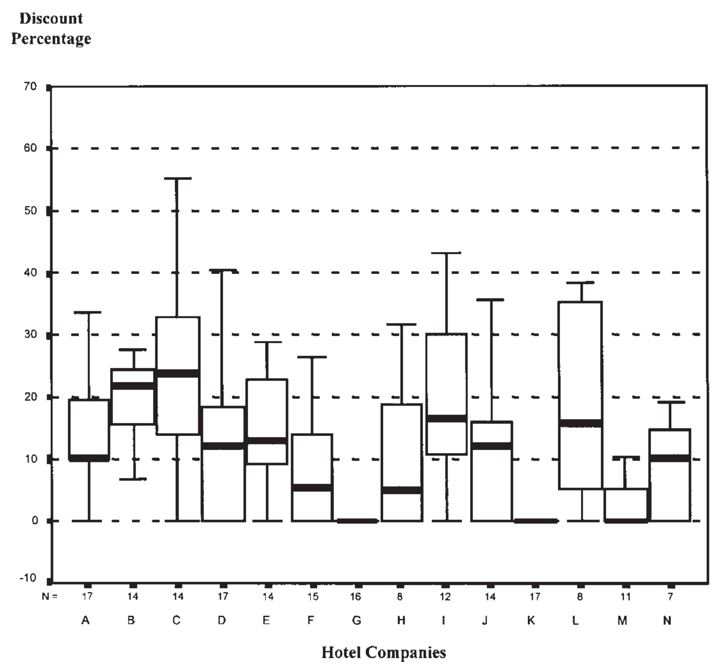
Table 2 highlights the variability among the hotel companies. Hotel companies G, K, and M quoted a mean discount of less than 5%; hotel companies A, F, H, and N quoted a discount between 5% and 10%; hotel companies D, E, and J quoted a discount between 11% and 15%; hotel companies I and L quoted a discount between 16% and 20%; and hotel companies B and C quoted a rate greater than 20%. This indicates that discounts to consumers are not being applied consistently across lodging companies.

This inconsistency may decrease guest satisfaction because they are unable to predict the level of discounts provided to different guests (Kimes, 1994). Low rate integrity creates an environment whereby guest satisfaction may decrease (Kimes, 1994), yet many lodging executives argued that people are still flying despite the variability in fares, and the same scenario applies to the lodging industry. However, there are noticeable exceptions in the airline industry: (a) prices tend to be more time sensitive, (b) a third party is generally making the reservation (travel agent), (c) prices are publicly displayed on terminals, and (d) customers are normally unable to negotiate the fares.

There was also a significant negative correlation (–.159, $p = .045$) between the discount percentage and the number of rooms (see Figure 2). This indicates that larger properties provided less of a percentage discount than smaller ones, suggesting a reverse relationship between the size of a property and pricing stability. This occurrence may happen due to the fact that it may be more difficult to allow reservationists to negotiate rates in larger hotels compared to smaller hotels. This is due to the increased number of reservationists and the complexity of the management structure in larger hotels. In smaller hotels, the hotel general managers have daily contact with the front office managers and reservationists. Another factor could be that properties with a larger number of rooms have stronger occupancy rates, which allow them to avoid offering discounted rates. However, occupancy percentages for the various hotels were not available, which prevented this type of analysis from being conducted. Another significant finding was the positive correlation (.513, $p = .000$) between the number of rooms and the initial business rate (see Table 3). In most convention cities, larger properties tend to charge higher rates with the exception of smaller, specialized hotel companies, such as suite and boutique hotels.

Each hotel company's initial and lowest business rates were then examined to determine if there was a significant difference between the rates (see Table 4). Seven of the hotel companies had significant differences of $p < .01$, and two had significant differences of $p < .05$. There was no significant difference among the remaining five hotels. It is important for the hotels to understand which properties in their market are discounting and the severity of that discount. The *Star Report* highlights the market share, but does not examine the level of discounting within a market. Attempting to maintain rate integrity in a "soft" rate market demonstrates

Figure 2
Discount Percentage Boxplots for Hotel Companies



the importance of benchmarking their discounting practices with the other hotels in the marketplace.

In the next phase of the analysis, hotel companies were examined to determine if there were differences among the hotel companies in terms of their initial and negotiated business rates. However, because there was not an equal number of hotels represented in each city, hotel companies that had fewer than 11 hotels were deleted. Appelbaum and Cramer (1974) stated that ANOVA should only be conducted with sample sizes that are not greater than 1.5 times the minimal number of cases. This eliminated H, L, and N hotel companies from this part of the analysis.

Table 5 shows that there was a significant difference ($p = .00$) among the different hotel companies in terms of their initially stated business rate. The Student-Newman-Keuls post hoc test reveals that there were five subsets for the 11 hotels examined within the study (see Table 6). An interesting observation is that lodging companies at the lower rates varied from 11.29% to 15.41% discount, whereas hotels from the highest subset ranged from 2.59% to 23.37%. Further analysis is needed to conclude whether the disparity among the higher priced hotel companies, in terms of providing discounts to their guests, is due to their current practices, policy, training, or demand.

Table 3
Correlation Among Business Rates, Percentage Discount, and Number of Rooms

	Business Rate	Percentage Discount	Number of Rooms
Business rate			
Pearson correlation	1.00		
Significance (2-tailed)			
N	160		
Percentage discount			
Pearson correlation	.015	1.00	
Significance (2-tailed)	.853		
N	160	160	
Number of rooms			
Pearson correlation	.513**	–.159*	1.000
Significance (2-tailed)	.000	0.045	
N	159	159	159

*Correlation is significant at the .05 level (2-tailed). **Correlation is significant at the .01 level (2-tailed).

Table 4
Paired *t* Test Between Business Rates, Lowest Business Rate Within Hotel Companies

Hotel Companies	*N*	Business Rate Means ($)	Lowest Business Rate Means ($)	Significance
A	17	94.11	77.81	.004**
B	14	145.64	117.36	.000***
C	14	175.00	139.86	.000***
D	17	112.22	98.36	.002**
E	14	79.06	67.21	.000***
F	15	171.73	155.13	.005**
G	16	158.50	155.13	.085
H	8	166.88	148.25	.081
I	12	118.83	93.75	.001**
J	14	86.36	75.23	.043*
K	17	132.29	125.04	.117
L	8	173.00	141.38	.015*
M	11	182.09	173.82	.095
N	7	127.71	117.57	.059

*p < .05. **p < .01. ***p < .001.

CONCLUSIONS

The study found that there were significant differences between the initial stated business rate and the negotiated business rate in approximately 65% of the lodging companies examined within the study. Every company negotiated their rates, but the depth and breadth of their discounts were significantly different. Hotel Company B was willing to negotiate their rates 92.9% of the time compared

Table 5
Analysis of Variance for Business Rates Among Hotel Companies

	df	Sum of Squares	Mean Square	*F* Value	*p* Value
Between hotel companies	10	192,399.41	19,239.94	13.955	.000
Within hotel companies	150	206,806.08	1,378.72		
Total	160	399,207.49			

Table 6
Post Hoc Test for Business Rate With Hotel Companies (in dollars)

Hotel Companies	Percentage Discount Mean	*n*	1	2	3	4	5
E	14.58	14	79.0643				
J	11.29	14	86.3571	86.3571			
A	15.41	17	94.1147	94.1147			
D	11.52	17	112.2206	112.2206	112.2206		
I	19.84	12		118.8333	118.8333		
K	6.31	17			132.2941	132.2941	
B	20.03	14			145.6429	145.6429	145.6429
G	2.59	16				158.5000	158.5000
F	9.62	15					171.7333
C	23.37	14					175.0000
M	4.18	11					182.0909
Significance			.078	.088	.075	.141	.065

Note: Student-Newman-Keuls post hoc tests. Subset for alpha = .05. Means for groups in homogeneous subsets are displayed; group sizes are unequal, and harmonic mean of the group sizes is used.

to Hotel Company F that was willing to negotiate only 18.7% of the time. Another interesting factor was that as the number of rooms increased in a property, the discount percentage decreased significantly ($p = .045$). This indicates that the larger properties were less willing to negotiate their rates.

Additional research is needed to determine whether the disparity among the higher priced hotel companies, in terms of providing discounts to their guests, is due to their current practices, policy, or training, or is based on supply/demand tactics. Only through benchmarking will a company know when discounting is too much or not enough.

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